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

FORM 10-K

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

For year ended December 31, 2015

Commission file number 001-16407

ZIMMER BIOMET HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-4151777**
(State of Incorporation)	*(IRS Employer Identification No.)*
345 East Main Street Warsaw, Indiana	**46580**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(574) 267-6131**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

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

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

The aggregate market value of shares held by non-affiliates was $18,873,280,711 (based on the closing price of these shares on the New York Stock Exchange on June 30, 2015 and assuming solely for the purpose of this calculation that all directors and executive officers of the registrant are "affiliates"). As of February 24, 2016, 198,834,321 shares of the registrant's $.01 par value common stock were outstanding.

Documents Incorporated by Reference

Document	**Form 10-K**
Portions of the Proxy Statement with respect to the 2016 Annual Meeting of Stockholders	Part III

Cautionary Note About Forward-Looking Statements

This Annual Report on Form 10-K includes "forward-looking" statements within the meaning of federal securities laws. Forward-looking statements may be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "may," "will," "can," "should," "would," "could," "anticipate," "expect," "plan," "seek," "believe," "predict," "estimate," "potential," "project," "assume," "guide," "target," "forecast," "intend," "strategy," "is confident that," "future," "opportunity," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section titled "Risk Factors" (refer to Part I, Item 1A of this report). Readers of this report are cautioned not to place undue reliance on these forward-looking statements. While we believe the assumptions on which the forward-looking statements are based are reasonable, there can be no assurance that these forward-looking statements will prove to be accurate. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

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PART I

Item 1. Business

Overview

Zimmer Biomet is a global leader in musculoskeletal healthcare. We design, manufacture and market orthopaedic reconstructive products; sports medicine, biologics, extremities and trauma products; spine, bone healing, craniomaxillofacial and thoracic products; dental implants; and related surgical products. We collaborate with healthcare professionals around the globe to advance the pace of innovation. Our products and solutions help treat patients suffering from disorders of, or injuries to, bones, joints or supporting soft tissues. Together with healthcare professionals, we help millions of people live better lives. In this report, "Zimmer Biomet," "we," "us," "our," "the Company" and similar words refer collectively to Zimmer Biomet Holdings, Inc. and its subsidiaries. "Zimmer Biomet Holdings" refers to the parent company only.

Zimmer Biomet Holdings was incorporated in Delaware in 2001. Our history dates to 1927, when Zimmer Manufacturing Company, a predecessor, was founded in Warsaw, Indiana. On August 6, 2001, we were spun off from our former parent and became an independent public company.

On June 24, 2015 (the "Closing Date"), we acquired LVB Acquisition, Inc. ("LVB"), the parent company of Biomet, Inc. ("Biomet"), and LVB and Biomet became our wholly-owned subsidiaries (sometimes hereinafter referred to as the "Biomet merger" or the "merger"). In connection with the merger, we changed our name from Zimmer Holdings, Inc. to Zimmer Biomet Holdings, Inc. The Biomet merger is expected to be a transformational event for us and have significant effects on all aspects of our business. Throughout 2015 and entering 2016, a key focus of ours has been, and will continue to be, the successful integration of Biomet.

"Zimmer" used alone refers to the business or information of us and our subsidiaries on a stand-alone basis without inclusion of the business or information of LVB or any of its subsidiaries.

Customers, Sales and Marketing

Our primary customers include orthopaedic surgeons, neurosurgeons, oral surgeons, and other specialists, dentists, hospitals, stocking distributors, healthcare dealers and, in their capacity as agents, healthcare purchasing organizations or buying groups. These customers range from large multinational enterprises to independent clinicians and dentists.

We have operations throughout the world. We manage our operations through three major geographic operating segments and four product category operating segments. Our three major geographic operating segments are the Americas, which is comprised principally of the U.S. and includes other North, Central and South American markets; EMEA, which is comprised principally of Europe and includes the Middle East and African markets; and Asia Pacific, which is comprised primarily of Japan and includes other Asian and Pacific markets. Our four product category operating segments, which are individually not as significant as our geographic operating segments, are as follows: 1) Americas Spine; 2) Bone Healing; 3) Craniomaxillofacial and Thoracic ("CMF"); and 4) Dental.

We market and sell products through three principal channels: 1) direct to healthcare institutions, such as hospitals, referred to as direct channel accounts; 2) through stocking distributors and healthcare dealers; and 3) directly to dental practices and dental laboratories. With direct channel accounts, inventory is generally consigned to sales agents or customers. With sales to stocking distributors, healthcare dealers, dental practices and dental laboratories, title to product passes upon shipment or upon implantation of the product. Direct channel accounts represented approximately 80 percent of our net sales in 2015. No individual direct channel account, stocking distributor, healthcare dealer, dental practice or dental laboratory accounted for more than 1 percent of our net sales for 2015.

We stock inventory in our warehouse facilities and retain title to consigned inventory in sufficient quantities so that products are available when needed for surgical procedures. Safety stock levels are determined based on a number of factors, including demand, manufacturing lead times and quantities required to maintain service levels. We also carry trade accounts receivable balances based on credit terms that are generally consistent with local market practices.

We utilize a network of sales associates, sales managers and support personnel, some of whom are employed or contracted by independent distributors and sales agencies. We invest a significant amount of time and expense in training sales associates in how to use specific products and how to best inform surgeons of product features and uses. Sales force representatives must have strong technical selling skills and medical education to provide technical support for surgeons.

In response to the different healthcare systems throughout the world, our sales and marketing strategies and organizational structures differ by region. We utilize a global approach to sales force training, marketing and medical education to provide consistent, high quality service. Additionally, we keep current with key surgical developments and other issues related to orthopaedic surgeons, neurosurgeons, other specialists, dentists and oral surgeons and the medical procedures they perform.

Due to the Biomet merger, we changed our senior management organizational structure which has resulted in a change to our operating segments. We now allocate resources to achieve our operating profit goals through seven operating segments. Our operating segments are comprised of both geographic and product category business units. We are organized through a combination of geographic and product category operating segments for various reasons, including the distribution channels through which products are sold. Our product category operating segments generally have distribution channels focused specifically on those product

categories, whereas our geographic operating segments have distribution channels that sell multiple product categories. The following is a summary of our seven operating segments. See Note 18 to the consolidated financial statements for more information regarding our segments.

Americas. The Americas geographic operating segment is our largest operating segment. The U.S. accounts for 94 percent of net sales in this region. The U.S. sales force consists of a combination of employees and independent sales agents, most of whom sell products exclusively for Zimmer Biomet. The sales force in the U.S. receives a commission on product sales and is responsible for many operating decisions and costs.

In this region, we contract with group purchasing organizations and managed care accounts and have promoted unit growth by offering volume discounts to customer healthcare institutions within a specified group. Generally, we are designated as one of several preferred purchasing sources for specified products, although members are not obligated to purchase our products. Contracts with group purchasing organizations generally have a term of three years, with extensions as warranted.

In the Americas, we monitor and rank independent sales agents and our direct sales force across a range of performance metrics, including the achievement of sales targets and maintenance of efficient levels of working capital.

EMEA. The EMEA geographic operating segment is our second largest operating segment. France, Germany, Italy, Spain and the United Kingdom collectively account for 62 percent of net sales in the region. This segment also includes other key markets, including Switzerland, Benelux, Nordic, Central and Eastern Europe, the Middle East and Africa. Our sales force in this segment is comprised of direct sales associates, commissioned agents, independent distributors and sales support personnel. We emphasize the advantages of our clinically proven, established designs and innovative solutions and new and enhanced materials and surfaces. In most European countries, healthcare is sponsored by the government and therefore government budgets impact healthcare spending, which can affect our sales in this segment.

Asia Pacific. The Asia Pacific geographic operating segment includes key markets such as Japan, Australia, New Zealand, Korea, China, Taiwan, India, Thailand, Singapore, Hong Kong and Malaysia. Japan is the largest market within this segment, accounting for 40 percent of the region's sales. In Japan and most countries in the Asia Pacific region, we maintain a network of dealers, who act as order agents on behalf of hospitals in the region, and sales associates, who build and maintain relationships with orthopaedic surgeons and neurosurgeons in their markets. The knowledge and skills of these sales associates play a critical role in providing service, product information and support to surgeons. We have a research and development center in Beijing, China, which focuses on products and technologies designed to meet the unique needs of Asian patients and their healthcare providers.

Americas Spine. The Americas Spine product category operating segment is comprised of our spine products division in the Americas, primarily in the U.S. market, but also in other North, Central and South American markets. The market dynamics of the Americas Spine business are similar to those described in the Americas geographic operating segment. However, the Americas Spine business maintains a separate sales force of employees and independent sales agents.

Bone Healing. Our Bone Healing product category operating segment only sells to U.S. customers. In this product category, we market our products to doctors who prescribe them for use by patients. The products are mostly provided directly by Zimmer Biomet to patients and are paid for through patients' insurance or by patients themselves. Products are also sold through wholesale channels on a limited basis.

CMF. Our CMF product category operating segment competes across the world through a combination of direct and independent sales agents. The U.S. sales force consists of a combination of employees and independent sales agents. Internationally, our primary customers are independent stocking distributors who market our products to their customers.

Dental. Our Dental product category operating segment competes across the world. Our sales force is primarily composed of employees who market our products to customers. We sell directly to dental practices or dental laboratories, or to independent stocking distributors depending on the market.

Seasonality

Our business is seasonal in nature to some extent, as many of our products are used in elective procedures, which typically decline during the summer months and can increase at the end of the year once annual deductibles have been met on health insurance plans.

Distribution

We distribute our products both through large, centralized warehouses and through smaller, market specific facilities, depending on the needs of the market. We maintain large, centralized warehouses in the U.S. and Europe to be able to efficiently distribute our products to customers in those regions. In addition to these centralized warehouses, we maintain smaller distribution facilities within each of the countries where we have a direct sales presence. In many locations, our inventory is consigned to the healthcare institution.

We generally ship our orders via expedited courier. We do not consider our backlog of firm orders to be material to an understanding of our business.

Products

Our products include orthopaedic reconstructive products; sports medicine, biologics, extremities and trauma products; spine, bone healing and CMF products; dental implants; and related surgical products.

KNEES

Total knee replacement surgeries typically include a femoral component, a patella (knee cap), a tibial tray and an articular surface (placed on the tibial tray). Knee replacement surgeries include first-time, or primary, joint replacement procedures and revision procedures for the replacement, repair or enhancement of an implant or component from a previous procedure. There are also procedures for partial reconstruction of the knee, which treat limited knee degeneration and involve the replacement of only one side, or compartment, of the knee with a unicompartmental knee prosthesis. Our knee portfolio also includes early intervention and joint preservation products, which seek to preserve the joint by repairing or regenerating damaged tissues and by treating osteoarthritis.

Our significant knee brands include the following:

- Persona® The Personalized Knee System
- NexGen® Complete Knee Solution
- Vanguard® Knee System
- Oxford® Partial Knee

HIPS

Total hip replacement surgeries replace both the head of the femur and the socket portion of the pelvis (acetabulum) of the natural hip. Hip procedures include first-time, or primary, joint replacement as well as revision procedures. Hip implant procedures involve the use of bone cement to attach or affix the prosthetic components to the surrounding bone, or are press-fit into bone, which means that they have a surface that bone affixes to through either ongrowth or ingrowth technologies.

Our significant hip brands include the following:

- Zimmer® M/L Taper Hip Prosthesis
- Taperloc® Hip System
- Arcos® Modular Hip System
- Continuum® Acetabular System
- G7® Acetabular System

S.E.T.

Our S.E.T. product category includes surgical, sports medicine, biologics, foot and ankle, extremities and trauma products. Our surgical products are used to support various surgical procedures. Our sports medicine products are primarily for the repair of soft tissue injuries, most commonly used in the knee and shoulder. Our biologics products are used as early intervention for joint preservation or to support surgical procedures. Our foot and ankle and extremities products are designed to treat arthritic conditions and fractures in the foot, ankle, shoulder, elbow and wrist. Our trauma products are used to stabilize damaged or broken bones and their surrounding tissues to support the body's natural healing process.

Our significant S.E.T. brands include the following:

- Transposal® and Transposal Ultra® Fluid Waste Management Systems
- A.T.S.® Automatic Tourniquet Systems
- JuggerKnot® Soft Anchor System
- Gel-One®[1] Cross-linked Hyaluronate
- Trabecular Metal™ Reverse Shoulder System
- Comprehensive® Shoulder
- Zimmer® Natural Nail® System
- DVR® Plating System

DENTAL

Our dental products division manufactures and/or distributes: 1) dental reconstructive implants – for individuals who are totally without teeth or are missing one or more teeth; 2) dental prosthetic products – aimed at providing a more natural restoration to resemble the original teeth; and 3) dental regenerative products – for soft tissue and bone rehabilitation.

Our significant dental brands include the following:

- Tapered Screw-Vent® Implant System
- 3i T3® Implant
- Puros® Allograft Products

SPINE and CMF

Our spine products division designs, manufactures and distributes medical devices and surgical instruments to deliver comprehensive solutions for individuals with back or neck pain caused by degenerative conditions, deformities or traumatic injury of the spine. Our CMF division includes face and skull reconstruction products as well as products that fixate and stabilize the bones of the chest in order to facilitate healing or reconstruction after open heart surgery, trauma or for deformities of the chest.

Our significant spine and CMF brands include the following:

- Polaris™ Spinal System
- Timberline® Lateral Fusion System
- PathFinder NXT® Minimally Invasive Pedicle Screw System
- TraumaOne™ Plating System

OTHER

Our other product category primarily includes our bone cement and bone healing products. Our significant brands include the following:

- PALACOS®[2] Bone Cement
- SpinalPak® Spinal Fusion Stimulator

Research and Development

We have extensive research and development activities to develop new surgical techniques, materials, biologics and product designs. The research and development teams work closely with our strategic brand marketing function. The rapid commercialization of innovative new materials, biologics products, implant and instrument designs and surgical techniques remains one of our core strategies and continues to be an important driver of sales growth.

[1] Registered trademark of Seikagaku Corporation
[2] Registered trademark of Heraeus Medical GmbH

We are broadening our offerings in each of our product categories and exploring new technologies with possible applications in multiple areas. Our primary research and development facility is located in Warsaw, Indiana. We have other research and development personnel based in, among other places, Canada, China, France, Switzerland and other U.S. locations. As of December 31, 2015, we employed approximately 1,700 research and development employees worldwide.

We expect to continue to identify innovative technologies, which may include acquiring complementary products or businesses, establishing technology licensing arrangements or strategic alliances.

Government Regulation and Compliance

We are subject to government regulation in the countries in which we conduct business. In the U.S., numerous laws and regulations govern all the processes by which medical devices are brought to market. These include, among others, the Federal Food, Drug and Cosmetic Act and regulations issued or promulgated thereunder. The U.S. Food and Drug Administration ("FDA") has enacted regulations that control all aspects of the development, manufacture, advertising, promotion and postmarket surveillance of medical products, including medical devices. In addition, the FDA controls the access of products to market through processes designed to ensure that only products that are safe and effective are made available to the public.

Most of our new products fall into an FDA classification that requires the submission of a Premarket Notification (510(k)) to the FDA. This process requires us to demonstrate that the device to be marketed is at least as safe and effective as, that is, substantially equivalent to, a legally marketed device. We must submit information that supports our substantial equivalency claims. Before we can market the new device, we must receive an order from the FDA finding substantial equivalence and clearing the new device for commercial distribution in the U.S.

Other devices we develop and market are in a category (class) for which the FDA has implemented stringent clinical investigation and Premarket Approval ("PMA") requirements. The PMA process requires us to provide clinical and laboratory data that establishes that the new medical device is safe and effective. The FDA will approve the new device for commercial distribution if it determines that the data and information in the PMA application constitute valid scientific evidence and that there is reasonable assurance that the device is safe and effective for its intended use(s).

All of our devices marketed in the U.S. have been cleared or approved by the FDA, with the exception of some devices which are exempt or were in commercial distribution prior to May 28, 1976. The FDA has grandfathered these devices, so new FDA submissions are not required.

Both before and after a product is commercially released, we have ongoing responsibilities under FDA regulations. The FDA reviews design and manufacturing practices, labeling and record keeping, and manufacturers' required reports of adverse experiences and other information to identify potential problems with marketed medical devices. We are also subject to periodic inspection by the FDA for compliance with the FDA's Quality System regulations among other FDA requirements, such as restrictions on advertising and promotion. The Quality System regulations govern the methods used in, and the facilities and controls used for, the design, manufacture, packaging and servicing of all finished medical devices intended for human use. If the FDA were to conclude that we are not in compliance with applicable laws or regulations, or that any of our medical devices are ineffective or pose an unreasonable health risk, the FDA could require us to notify healthcare professionals and others that the devices present unreasonable risks of substantial harm to the public health, order a recall, repair, replacement, or refund payment of such devices, detain or seize adulterated or misbranded medical devices, or ban such medical devices.

The FDA may also impose operating restrictions, enjoin and/or restrain certain conduct resulting in violations of applicable law pertaining to medical devices, and assess civil or criminal penalties against our officers, employees or us. The FDA may also recommend prosecution to the U.S. Department of Justice ("DOJ").

The FDA, in cooperation with U.S. Customs and Border Protection ("CBP"), administers controls over the import of medical devices into the U.S. The CBP imposes its own regulatory requirements on the import of our products, including inspection and possible sanctions for noncompliance. We are also subject to foreign trade controls administered by certain U.S. government agencies, including the Bureau of Industry and Security within the Commerce Department and the Office of Foreign Assets Control within the Treasury Department.

There are also requirements of state, local and foreign governments that we must comply with in the manufacture and marketing of our products.

In many of the foreign countries in which we market our products, we are subject to local regulations affecting, among other things, design and product standards, packaging requirements and labeling requirements. Many of the regulations applicable to our devices and products in these countries are similar to those of the FDA. The member countries of the European Union have adopted the European Medical Device Directive, which creates a single set of medical device regulations for products marketed in all member countries. Compliance with the Medical Device Directive and certification to a quality system enable the manufacturer to place a CE mark on its products. To obtain authorization to affix the CE mark to a product, a recognized European Notified Body must assess a manufacturer's quality systems and the product's conformity to the requirements of the Medical Device Directive. We are subject to inspection by the Notified Bodies for compliance with these requirements.

Further, we are subject to various federal, state and foreign laws concerning healthcare fraud and abuse, including false claims and anti-kickback laws, as well as the U.S. Physician Payments Sunshine Act and similar state and foreign healthcare professional payment transparency laws. These

laws are administered by, among others, the U.S. Department of Justice, the Office of Inspector General of the Department of Health and Human Services, state attorneys general and various foreign government agencies. Many of these agencies have increased their enforcement activities with respect to medical device manufacturers in recent years. Violations of these laws are punishable by criminal and/or civil sanctions, including, in some instances, fines, imprisonment and, within the U.S., exclusion from participation in government healthcare programs, including Medicare, Medicaid and Veterans Administration ("VA") health programs.

Our operations in foreign countries are subject to the extraterritorial application of the U.S. Foreign Corrupt Practices Act. Our global operations are also subject to foreign anti-corruption laws, such as the UK Bribery Act, among others. As part of our global compliance program, we seek to address anti-corruption risks proactively.

Our facilities and operations are also subject to complex federal, state, local and foreign environmental and occupational safety laws and regulations, including those relating to discharges of substances in the air, water and land, the handling, storage and disposal of wastes and the clean-up of properties by pollutants. We do not expect that the ongoing costs of compliance with these environmental requirements will have a material impact on our consolidated earnings, capital expenditures or competitive position.

Competition

The orthopaedics and broader musculoskeletal care industry is highly competitive. In the global markets for our knees, hips, and S.E.T. products, our major competitors include: the DePuy Synthes Companies of Johnson & Johnson; Stryker Corporation; and Smith & Nephew plc. There are smaller competitors in these product categories as well who have success by focusing on smaller subsegments of the industry.

In the spine and CMF categories, we compete globally primarily with the spinal and biologic business of Medtronic, Inc., the DePuy Synthes Companies, Stryker Corporation, NuVasive, Inc. and Globus Medical, Inc.

In the dental implant category, we compete primarily with Nobel Biocare Holding AG (part of the Danaher Corporation), Straumann Holding AG and Dentsply International.

Competition within the industry is primarily based on pricing, technology, innovation, quality, reputation and customer service. A key factor in our continuing success in the future will be our ability to develop new products and improve existing products and technologies.

Manufacturing and Raw Materials

We manufacture our products at various sites. We also strategically outsource some manufacturing to qualified suppliers who are highly capable of producing components.

The manufacturing operations at our facilities are designed to incorporate the cellular concept for production and to implement tenets of a manufacturing philosophy focused on continuous improvement efforts in product quality, lead time reduction and capacity optimization. Our continuous improvement efforts are driven by Lean and Six Sigma methodologies. In addition, at certain of our manufacturing facilities, many of the employees are cross-trained to perform a broad array of operations.

We generally target operating our manufacturing facilities at optimal levels of total capacity. We continually evaluate the potential to in-source and outsource production as part of our manufacturing strategy to provide value to our stakeholders.

We have improved our manufacturing processes to protect our profitability and offset the impact of inflationary costs. We have, for example, employed computer-assisted robots and multi-axis grinders to precision polish medical devices; automated certain manufacturing and inspection processes, including on-machine inspection and process controls; purchased state-of-the-art equipment; in-sourced core products and processes; and negotiated cost reductions from third-party suppliers.

We use a diverse and broad range of raw materials in the manufacturing of our products. We purchase all of our raw materials and select components used in manufacturing our products from external suppliers. In addition, we purchase some supplies from single sources for reasons of quality assurance, sole source availability, cost effectiveness or constraints resulting from regulatory requirements. We work closely with our suppliers to assure continuity of supply while maintaining high quality and reliability. To date, we have not experienced any significant difficulty in locating and obtaining the materials necessary to fulfill our production schedules.

Intellectual Property

Patents and other proprietary rights are important to the continued success of our business. We also rely upon trade secrets, know-how, continuing technological innovation and licensing opportunities to develop and maintain our competitive position. We protect our proprietary rights through a variety of methods, including confidentiality agreements and proprietary information agreements with vendors, employees, consultants and others who may have access to proprietary information. We own or control through licensing arrangements approximately 7,000 issued patents and patent applications throughout the world that relate to aspects of the technology incorporated in many of our products.

Employees

As of December 31, 2015, we employed approximately 17,500 employees worldwide, including approximately 1,700 employees dedicated to research and development. Approximately 8,400 employees are located within the U.S. and approximately 9,100 employees are located outside of the U.S., primarily throughout Europe and in Japan. We have approximately 7,700 employees dedicated to manufacturing our products worldwide. The Warsaw, Indiana production facilities employ approximately 2,800 employees in the aggregate.

We have production employees represented by a labor union in Dover, Ohio and Bridgend, South Wales. We have other employees in Europe who are represented by Works Councils. We believe that our relationship with our employees is satisfactory.

EXECUTIVE OFFICERS

The following table sets forth certain information with respect to our executive officers as of February 19, 2016.

Name	Age	Position
David C. Dvorak	52	President and Chief Executive Officer
Daniel P. Florin	51	Senior Vice President and Chief Financial Officer
Tony W. Collins	47	Vice President, Corporate Controller and Chief Accounting Officer
Adam R. Johnson	38	Group President, Spine, Dental, CMF and Thoracic
Stuart G. Kleopfer	53	President, Americas
Katarzyna Mazur-Hofsaess, M.D., Ph.D.	52	President, Europe, Middle East and Africa
David A. Nolan Jr.	50	Group President, Biologics, Extremities, Sports Medicine, Surgical, Trauma, Foot and Ankle and Bone Healing
Chad F. Phipps	44	Senior Vice President, General Counsel and Secretary
Daniel E. Williamson	50	Group President, Joint Reconstruction
Sang Yi	54	President, Asia Pacific

Mr. Dvorak was appointed President, Chief Executive Officer and a member of the Board of Directors in May 2007. He championed Zimmer's acquisition of Biomet, positioning the combined Zimmer Biomet as a global leader in musculoskeletal healthcare. Prior to his appointment as President and Chief Executive Officer, Mr. Dvorak served as Group President, Global Businesses and Chief Legal Officer from December 2005. From October 2003 to December 2005, he served as Executive Vice President, Corporate Services, Chief Counsel and Secretary, as well as Chief Compliance Officer. Mr. Dvorak joined the Company (then Zimmer) as Senior Vice President, Corporate Affairs and General Counsel in December 2001, shortly following the Company's spin-off from Bristol-Myers Squibb.

Mr. Collins was appointed Vice President, Corporate Controller and Chief Accounting Officer effective June 2015. Prior to that, Mr. Collins served as Vice President, Finance for the Global Reconstructive Division and Global Operations organization. He joined the Company (then Zimmer) in 2010 as Vice President, Finance for the Global Reconstructive Division and U.S. Commercial organization. Before joining Zimmer, Mr. Collins held the position of Vice President, Finance and served as the chief financial officer of the Commercial segment of Oshkosh Corporation from 2007 to 2010. From 1997 to 2007, he was employed at Guidant Corporation and Boston Scientific Corporation, where he held a number of positions of increasing responsibility, including Finance Director and chief financial officer of the Guidant Japan organization, Global Director of Operations Finance and Director of Strategic Planning.

Mr. Florin was appointed Senior Vice President and Chief Financial Officer effective June 2015. He served as Senior Vice President and Chief Financial Officer of Biomet from June 2007 to June 2015. Prior to joining Biomet, Mr. Florin served as Vice President and Corporate Controller of Boston Scientific Corporation from 2001 until 2007. Before being appointed Corporate Controller in 2001, Mr. Florin served in financial leadership positions within Boston Scientific Corporation and its various business units. Prior to joining Boston Scientific Corporation, Mr. Florin worked for C.R. Bard from October 1990 through June 1995.

Mr. Johnson was appointed Group President with responsibility for the Company's Spine, Dental, Craniomaxillofacial and Thoracic businesses effective June 2015. He served as Senior Vice President, Biomet, and President, Biomet Microfixation, Bone Healing and Spine from June 2012 to June 2015. Before that, he served as President, Biomet Microfixation from 2007 to 2012 and Vice President, Global Marketing, Biomet Microfixation from 2006 to 2007. Prior to that, Mr. Johnson served as Director of Global Marketing for Regeneration Technologies, Inc. (now known as RTI Surgical, Inc.). He also worked for Biomet for five years previously, starting his career with Biomet in 1999.

Mr. Kleopfer was appointed President, Americas effective June 2015. He is responsible for the Company's sales and management of the direct and indirect sales channels in the Americas region, including the United States, Canada and Latin America. Mr. Kleopfer served as President, Biomet U.S. from May 2011 to June 2015. Before that, he served as President, Biomet Biologics from December 2005 to May 2011.

Prior to those appointments, Mr. Kleopfer held numerous positions of increasing responsibility within Biomet, where he began his career in 1988.

Dr. Mazur-Hofsaess was appointed President, EMEA in April 2013. Dr. Mazur-Hofsaess joined the Company (then Zimmer) in February 2010 as Senior Vice President, EMEA Reconstructive. She has more than 20 years' experience within the pharmaceutical, diagnostics and medical device sectors. Prior to joining Zimmer, Dr. Mazur-Hofsaess served in various management positions at Abbott Laboratories beginning in 2001, most recently as Vice President, Diagnostics – Europe.

Mr. Nolan was appointed Group President with responsibility for the Company's Biologics, Extremities, Sports Medicine, Surgical, Trauma, Foot and Ankle and Bone Healing businesses effective June 2015. He joined the Company (then Zimmer) in November 2012 as Senior Vice President, Sales. From January 2014 to June 2015, he served as Senior Vice President, Sales and Advanced Solutions. Prior to joining Zimmer, Mr. Nolan served as President, Biomet Sports Medicine, Extremities and Trauma from 2011 to 2012 and as President, Biomet Sports Medicine from 2001 to 2011. He joined Biomet in 1996.

Mr. Phipps was appointed Senior Vice President, General Counsel and Secretary in May 2007. He has global responsibility for the Company's Legal Affairs and he serves as Secretary to the Board of Directors. Mr. Phipps also oversees the Company's Government Affairs, Corporate Communication and Public Relations activities. Previously, Mr. Phipps served as Associate General Counsel and Corporate Secretary from December 2005 to May 2007. He joined the Company (then Zimmer) in September 2003 as Associate Counsel and Assistant Secretary. Prior to joining Zimmer, he served as Vice President and General Counsel of L&N Sales and Marketing, Inc. in Pennsylvania and he practiced law with the firm of Morgan, Lewis & Bockius in Philadelphia, focusing on corporate and securities law, mergers and acquisitions and financial transactions.

Mr. Williamson was appointed Group President, Joint Reconstruction with responsibility for the Company's Knee, Hip, Bone Cement, Patient-Matched Implants and Personalized Solutions businesses effective June 2015. He served as Senior Vice President, Biomet and President, Global Reconstructive Joints from February 2014 to June 2015. Prior to that, Mr. Williamson served as Biomet's Vice President and General Manager, Global Bone Cement and Biomaterials Research from September 2011 to February 2014, and as Corporate Vice President, Global Biologics and Biomaterials from May 2006 to September 2011. Mr. Williamson previously served as Biomet's Vice President, Business Development from December 2003 to May 2006. He began his career with Biomet in 1990 as a Product Development Engineer.

Mr. Yi was appointed President, Asia Pacific effective June 2015. He is responsible for the sales, marketing and distribution of products in the Asia Pacific region. Mr. Yi joined the Company (then Zimmer) in March 2013 as Senior Vice President, Asia Pacific. Before joining Zimmer, he served as Vice President and General Manager of St. Jude Medical for Asia Pacific and Australia from 2005 to 2013. Prior to that, Mr. Yi held several leadership positions over a ten-year period with Boston Scientific Corporation, ultimately serving as Vice President for North Asia.

AVAILABLE INFORMATION

Our Internet address is www.zimmerbiomet.com. We routinely post important information for investors on our website in the "Investor Relations" section, which may be accessed from our homepage at www.zimmerbiomet.com or directly at http://investor.zimmerbiomet.com. We use this website as a means of disclosing material, non-public information and for complying with our disclosure obligations under Regulation FD. Accordingly, investors should monitor the Investor Relations section of our website, in addition to following our press releases, Securities and Exchange Commission ("SEC") filings, public conference calls, presentations and webcasts. Our goal is to maintain the Investor Relations website as a portal through which investors can easily find or navigate to pertinent information about us, free of charge, including:

- our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), as soon as reasonably practicable after we electronically file that material with or furnish it to the SEC;
- announcements of investor conferences and events at which our executives talk about our products and competitive strategies, as well as podcasts and archives of these events;
- press releases on quarterly earnings, product announcements, legal developments and other material news that we may post from time to time;
- corporate governance information including our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Chief Executive Officer and Senior Financial Officers, information concerning our Board of Directors and its committees, including the charters of the Audit Committee, Compensation and Management Development Committee, Corporate Governance Committee and Research, Innovation and Technology Committee, and other governance-related policies;
- stockholder services information, including ways to contact our transfer agent and information on how to sign up for direct deposit of dividends or enroll in our dividend reinvestment plan; and
- opportunities to sign up for email alerts and RSS feeds to have information provided in real time.

The information available on our website is not incorporated by reference in, or a part of, this or any other report we file with or furnish to the SEC.

Item 1A. Risk Factors

Risk factors which could cause actual results to differ from our expectations and which could negatively impact our financial condition and results of operations are discussed below and elsewhere in this report. Additional risks and uncertainties not presently known to us or that are currently not believed to be significant to our business may also affect our actual results and could harm our business, financial condition and results of operations. If any of the risks or uncertainties described below or any additional risks and uncertainties actually occur, our business, results of operations and financial condition could be materially and adversely affected.

Successful integration of Biomet and anticipated benefits of the Biomet merger are not assured and integration matters could divert attention of management away from operations. Also, the merger could have an adverse effect on our business relationships.

Although Biomet has become an indirect wholly owned subsidiary of ours, it is initially continuing its operations on a basis that is separate from the legacy Zimmer operations. There can be no assurance that Biomet will be able to maintain and grow its business and operations. In addition, the market segments in which Biomet operates may experience declines in demand and/or new competitors. Customers, suppliers and other third parties with business relationships with us and/or Biomet may decide not to renew or may decide to seek to terminate, change and/or renegotiate their relationships with us and/or Biomet as a result of the merger, whether pursuant to the terms of their existing agreements with us and/or Biomet or otherwise.

Our ability to realize the anticipated benefits of the Biomet merger will depend, to a large extent, on our ability to integrate the legacy businesses. Integrating and coordinating certain aspects of the operations and personnel of Biomet with ours involves complex operational, technological and personnel-related challenges. This process is time-consuming and expensive, disrupts the businesses of both companies and may not result in the full benefits expected by us, including cost synergies expected to arise from supply chain efficiencies and overlapping general and administrative functions. The potential difficulties, and resulting costs and delays, include:

- managing a larger combined company;
- consolidating corporate and administrative infrastructures;
- issues in integrating manufacturing, warehouse and distribution facilities, research and development and sales forces;
- difficulties attracting and retaining key personnel;
- loss of customers and suppliers and inability to attract new customers and suppliers;
- unanticipated issues in integrating information technology, communications and other systems;
- incompatibility of purchasing, logistics, marketing, administration and other systems and processes; and
- unforeseen and unexpected liabilities related to the merger or Biomet's business.

Additionally, the integration of our and Biomet's operations, products and personnel may place a significant burden on management and other internal resources. The attention of our management may be directed towards integration considerations and may be diverted from our day-to-day business operations, and matters related to the integration may require commitments of time and resources that could otherwise have been devoted to other opportunities that might have been beneficial to us. The diversion of management's attention, and any difficulties encountered in the transition and integration process, could harm our business, financial condition and operating results.

Even if our businesses are successfully integrated, we may not realize the full benefits of the merger, including anticipated synergies, cost savings or growth opportunities, within the expected timeframe or at all. In addition, we expect to incur significant integration and restructuring expenses to realize synergies. However, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. These expenses could, particularly in the near term, exceed the savings that we expect to achieve from elimination of duplicative expenses and the realization of economies of scale and cost savings. Although we expect that the realization of efficiencies related to the integration of the businesses may offset incremental transaction, merger-related and restructuring costs over time, we cannot give any assurance that this net benefit will be achieved in the near term, or at all.

Any of these matters could adversely affect our businesses or harm our financial condition, results of operations or business prospects.

We incurred substantial additional indebtedness in connection with the Biomet merger and may not be able to meet all of our debt obligations.

We incurred substantial additional indebtedness in connection with the Biomet merger. At December 31, 2015, our total indebtedness was $11.6 billion, as compared to $1.4 billion at December 31, 2014. We funded the cash portion of the merger consideration, the pay-off of certain indebtedness of Biomet and the payment of transaction-related expenses through a combination of available cash-on-hand and proceeds from debt financings, including proceeds from a $7.65 billion issuance of senior unsecured notes in March 2015, and borrowings of $3.0 billion under our $4.35 billion credit agreement. As of December 31, 2015, our debt service obligations, comprised of principal and interest (excluding capital leases and equipment notes), during the next 12 months are expected to be $339.8 million. As a result of the increase in our debt, demands on our cash resources have increased. The increased level of debt could, among other things:

- require us to dedicate a large portion of our cash flow from operations to the servicing and repayment of our debt, thereby reducing funds available for working capital, capital expenditures, research and development expenditures and other general corporate requirements;

- limit our ability to obtain additional financing to fund future working capital, capital expenditures, research and development expenditures and other general corporate requirements;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restrict our ability to make strategic acquisitions or dispositions or to exploit business opportunities;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- adversely affect our credit rating, with the result that the cost of servicing our indebtedness might increase and our ability to obtain surety bonds could be impaired;
- adversely affect the market price of our common stock; and
- limit our ability to apply proceeds from a future offering or asset sale to purposes other than the servicing and repayment of debt.

If we fail to comply with healthcare fraud and abuse laws and regulations, we could face substantial penalties and our business, operations and financial condition could be adversely affected.

Our industry is subject to various federal, state and foreign laws and regulations pertaining to healthcare fraud and abuse, including the federal False Claims Act, the federal Anti-Kickback Statute, the federal Stark law, the federal Physician Payments Sunshine Act and similar state and foreign laws. In addition, we are subject to various federal and foreign laws concerning anti-corruption and anti-bribery matters, sales to countries or persons subject to economic sanctions and other matters affecting our international operations. Violations of these laws are punishable by criminal and/or civil sanctions, including, in some instances, fines, imprisonment and, within the U.S., exclusion from participation in government healthcare programs, including Medicare, Medicaid and Veterans Administration health programs. These laws are administered by, among others, the DOJ, the Office of Inspector General of the U.S. Department of Health and Human Services ("OIG-HHS"), the SEC, the Office of Foreign Assets Control of the U.S. Department of the Treasury ("OFAC"), the Bureau of Industry and Security of the U.S. Department of Commerce and state attorneys general. The interpretation and enforcement of these laws and regulations are uncertain and subject to change.

Biomet is involved in ongoing governmental investigations, the results of which may adversely impact our business and results of operations. Further, if Biomet fails to comply with the terms of the DPA that it entered into in March 2012, it may be subject to criminal prosecution and/or exclusion from federal healthcare programs.

On March 26, 2012, Biomet entered into a Deferred Prosecution Agreement ("DPA") with the DOJ and a Consent to Final Judgment ("Consent") with the SEC related to an investigation by the DOJ and the SEC into possible violations of the Foreign Corrupt Practices Act ("FCPA") in the marketing and sale of medical devices in certain foreign countries. Pursuant to the DPA, the DOJ agreed to defer prosecution of Biomet in connection with those matters, provided that Biomet satisfies its obligations under the DPA over the term of the DPA. The DPA had a three-year term and provided that it could be extended in the sole discretion of the DOJ for an additional year.

Pursuant to the Consent, Biomet consented to the entry of a Final Judgment which, among other things, permanently enjoined Biomet from violating the provisions of the FCPA. In addition, pursuant to the terms of the DPA, an independent external compliance monitor was appointed to review Biomet's compliance with the DPA, particularly in relation to Biomet's international sales practices. The Consent that Biomet entered into with the SEC mirrors the DPA's provisions with respect to the compliance monitor.

In October 2013, Biomet became aware of certain alleged improprieties regarding its operations in Brazil and Mexico, including alleged improprieties that predated the entry of the DPA. Biomet retained counsel and other experts to investigate both matters. Based on the results of the ongoing investigations, Biomet has terminated, suspended or otherwise disciplined certain of the employees and executives involved in these matters, and has taken certain other remedial measures. Additionally, pursuant to the terms of the DPA, in April 2014 and thereafter, Biomet disclosed these matters to and discussed these matters with the independent compliance monitor and the DOJ and SEC. On July 2, 2014 and July 13, 2015, the SEC issued subpoenas to Biomet requiring that Biomet produce certain documents relating to such matters. These matters remain under investigation by the DOJ.

On March 13, 2015, the DOJ informed Biomet that the DPA and the independent compliance monitor's appointment have been extended for an additional year. On April 2, 2015, at the request of the staff of the SEC, Biomet consented to an amendment to the Final Judgment to extend the term of the compliance monitor's appointment for one year from the date of entry of the Amended Final Judgment.

Pursuant to the DPA, the DOJ has sole discretion to determine whether conduct by Biomet constitutes a violation or breach of the DPA. The DOJ has informed Biomet that it retains its rights under the DPA to bring further action against Biomet relating to the conduct in Brazil and Mexico referenced above or the violations set forth in the DPA. The DOJ could, among other things, revoke the DPA or prosecute Biomet and/or the involved employees and executives. Biomet continues to cooperate with the SEC and DOJ and expects that discussions with the SEC and the DOJ will continue.

In June 2013, Biomet received a subpoena from the U.S. Attorney's Office for the District of New Jersey requesting various documents relating to the fitting of custom-fabricated or custom-fitted orthoses, or bracing, to patients in New Jersey, Texas and Washington. Biomet has produced responsive documents and is fully cooperating with the request of the U.S. Attorney's Office. We may need to devote significant time and resources to this inquiry and can give no assurances as to its final outcome.

In July 2011, Biomet received an administrative subpoena from OFAC, requesting documents concerning the export of products to Iran. OFAC informed Biomet that the subpoena related to allegations that Biomet may have been involved in

unauthorized sales of dental products to Iran. Biomet is fully cooperating in the investigation and submitted its response to the subpoena in October 2011. We may need to devote significant time and resources to this inquiry and can give no assurances as to its final outcome.

In February 2010, Biomet received a subpoena from the OIG-HHS requesting various documents relating to agreements or arrangements between physicians and Biomet's Interpore Cross subsidiary for the period from 1999 through the date of the subpoena and the marketing and sales activities associated with Interpore Cross' spinal products. Biomet is fully cooperating in the investigation. We may need to devote significant time and resources to this inquiry and can give no assurances as to its final outcome.

As a result of the merger, all obligations and liabilities of Biomet related to the above matters have been assumed by us as the combined company. From time to time, we are, and may continue to be, the subject of additional investigations. If, as a result of the investigations described above or any additional investigations, we are found to have violated one or more applicable laws, our business, financial condition, results of operations and cash flows could be materially adversely affected. If some of our existing business practices are challenged as unlawful, we may have to modify those practices, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

Both before and after a product is commercially released, we have ongoing responsibilities under FDA regulations. Compliance with the FDA's requirements, including the Quality System regulation, recordkeeping regulations, labeling and promotional requirements and adverse event reporting regulations, is subject to continual review and is monitored rigorously through periodic inspections by the FDA, which may result in observations on Form 483, and in some cases warning letters, that require corrective action, or other forms of enforcement. If the FDA were to conclude that we are not in compliance with applicable laws or regulations, or that any of our medical devices are ineffective or pose an unreasonable health risk, the FDA could ban such medical devices, detain or seize adulterated or misbranded medical devices, order a recall, repair, replacement, or refund of payment of such devices, refuse to grant pending premarket approval applications, refuse to provide certificates to foreign governments for exports, and/or require us to notify healthcare professionals and others that the devices present unreasonable risks of substantial harm to the public health. The FDA may also impose operating restrictions on a company-wide basis, enjoin and restrain certain violations of applicable law pertaining to medical devices and assess civil or criminal penalties against our officers, employees or us. The FDA may also recommend prosecution to the DOJ. Any adverse regulatory action, depending on its magnitude, may restrict us from effectively marketing and selling our products and could have a material adverse effect on our business, financial condition and results of operations.

In 2012, we received a warning letter from the FDA citing concerns relating to certain processes pertaining to products manufactured at our Ponce, Puerto Rico manufacturing facility. In June 2015, Biomet received a warning letter from the FDA that requested additional information to allow the FDA to evaluate the adequacy of Biomet's responses to certain Form 483 observations issued following an inspection of Biomet's Zhejiang, China manufacturing facility in January 2015. As of December 31, 2015, these warning letters remained pending. Until the violations are corrected, we may become subject to additional regulatory action by the FDA, the FDA may refuse to grant premarket approval applications and/or the FDA may refuse to grant export certificates, any of which could have a material adverse effect on our business, financial condition and results of operations. Additional information regarding these and other FDA regulatory matters can be found in Note 20 to the consolidated financial statements.

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

Interruption of our manufacturing operations could adversely affect our business, financial condition and results of operations.

We have manufacturing sites all over the world. In some instances, however, the manufacturing of certain of our product lines is concentrated in one or more of our plants. Damage to one or more of our facilities from weather or natural disaster-related events, or issues in our manufacturing arising from failure to follow specific internal protocols and procedures, compliance concerns relating to the Quality System regulation and Good Manufacturing Practice requirements, equipment breakdown or malfunction or other factors could adversely affect our ability to manufacture our products. In the event of an interruption in manufacturing, we may be unable to move quickly to alternate means of producing affected products or to meet customer demand. In the event of a significant interruption, for example, as a result of a failure to follow regulatory protocols and procedures, we may experience lengthy delays in resuming production of affected products due primarily to the need for regulatory approvals. As a result, we may experience loss of market share, which we may be unable to recapture, and harm to our reputation, which could adversely affect our business, financial condition and results of operations.

Our success depends on our ability to effectively develop and market our products against those of our competitors.

We operate in a highly competitive environment. Our present or future products could be rendered obsolete or uneconomical by technological advances by one or more of our present or future competitors or by other therapies, including biological therapies. To remain competitive, we must continue to develop and acquire new products and technologies. Competition is primarily on the basis of:

- technology;
- innovation;
- quality;
- reputation; and
- customer service.

In markets outside of the U.S., other factors influence competition as well, including:

- local distribution systems;
- complex regulatory environments; and
- differing medical philosophies and product preferences.

Our competitors may:

- have greater financial, marketing and other resources than us;
- respond more quickly to new or emerging technologies;
- undertake more extensive marketing campaigns;
- adopt more aggressive pricing policies; or
- be more successful in attracting potential customers, employees and strategic partners.

Any of these factors, alone or in combination, could cause us to have difficulty maintaining or increasing sales of our products.

If we fail to retain the independent agents and distributors upon whom we rely heavily to market our products, customers may not buy our products and our revenue and profitability may decline.

Our marketing success in the U.S. and abroad depends significantly upon our agents' and distributors' sales and service expertise in the marketplace. Many of these agents have developed professional relationships with existing and potential customers because of the agents' detailed knowledge of products and instruments. Further, the legacy independent agents and distributors of us or Biomet may decide not to renew or may decide to seek to terminate, change and/or renegotiate their relationships with us and/or Biomet as a result of the merger. A loss of a significant number of the combined company's agents could have a material adverse effect on our business and results of operations.

If we do not introduce new products in a timely manner, our products may become obsolete over time, customers may not buy our products and our revenue and profitability may decline.

Demand for our products may change, in certain cases, in ways we may not anticipate because of:

- evolving customer needs;
- changing demographics;
- slowing industry growth rates;
- declines in the reconstructive implant market;
- the introduction of new products and technologies;
- evolving surgical philosophies; and
- evolving industry standards.

Without the timely introduction of new products and enhancements, our products may become obsolete over time. If that happens, our revenue and operating results would suffer. The success of our new product offerings will depend on several factors, including our ability to:

- properly identify and anticipate customer needs;
- commercialize new products in a timely manner;
- manufacture and deliver instruments and products in sufficient volumes on time;
- differentiate our offerings from competitors' offerings;
- achieve positive clinical outcomes for new products;
- satisfy the increased demands by healthcare payors, providers and patients for shorter hospital stays, faster post-operative recovery and lower-cost procedures;
- innovate and develop new materials, product designs and surgical techniques; and
- provide adequate medical education relating to new products.

In addition, new materials, product designs and surgical techniques that we develop may not be accepted quickly, in some or all markets, because of, among other factors:

- entrenched patterns of clinical practice;
- the need for regulatory clearance; and
- uncertainty with respect to third-party reimbursement.

Moreover, innovations generally require a substantial investment in research and development before we can determine their commercial viability and we may not have the financial resources necessary to fund the production. In addition, even if we are able to successfully develop enhancements or new generations of our products, these enhancements or new generations of products may not produce revenue in excess of the costs of development and they may be quickly rendered obsolete by changing customer preferences or the introduction by our competitors of products embodying new technologies or features.

If third-party payors decline to reimburse our customers for our products or reduce reimbursement levels, the demand for our products may decline and our ability to sell our products profitably may be harmed.

We sell our products and services to hospitals, doctors, dentists and other healthcare providers, all of which receive reimbursement for the healthcare services provided to their patients from third-party payors, such as domestic and international government programs, private insurance plans and managed care programs. These third-party payors may deny reimbursement if they determine that a device used in a procedure was not in accordance with cost-effective treatment methods, as determined by the third-party payor, or was used for an unapproved indication. Third-party payors may also decline to reimburse for experimental procedures and devices.

In addition, third-party payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement for medical products and services. If third-party payors reduce reimbursement levels to hospitals and other healthcare providers for our products, demand for our products may decline, or we may experience increased

pressure to reduce the prices of our products, which could have a material adverse effect on our sales and results of operations.

We have also experienced downward pressure on product pricing and other effects of healthcare reform in our international markets. If key participants in government healthcare systems reduce the reimbursement levels for our products, our sales and results of operations may be adversely affected.

The ongoing cost-containment efforts of healthcare purchasing organizations may have a material adverse effect on our results of operations.

Many customers for our products have formed group purchasing organizations in an effort to contain costs. Group purchasing organizations negotiate pricing arrangements with medical supply manufacturers and distributors, and these negotiated prices are made available to a group purchasing organization's affiliated hospitals and other members. If we are not one of the providers selected by a group purchasing organization, affiliated hospitals and other members may be less likely to purchase our products, and, if the group purchasing organization has negotiated a strict compliance contract for another manufacturer's products, we may be precluded from making sales to members of the group purchasing organization for the duration of the contractual arrangement. Our failure to respond to the cost-containment efforts of group purchasing organizations may cause us to lose market share to our competitors and could have a material adverse effect on our sales and results of operations.

We conduct a significant amount of our sales activity outside of the U.S., which subjects us to additional business risks and may cause our profitability to decline due to increased costs.

We sell our products in more than 100 countries and derived over 40 percent of our net sales in 2015 from outside the U.S. We intend to continue to pursue growth opportunities in sales internationally, including in emerging markets, which could expose us to additional risks associated with international sales and operations. Our international operations are, and will continue to be, subject to a number of risks and potential costs, including:

- changes in foreign medical reimbursement policies and programs;
- unexpected changes in foreign regulatory requirements;
- differing local product preferences and product requirements;
- fluctuations in foreign currency exchange rates;
- diminished protection of intellectual property in some countries outside of the U.S.;
- trade protection measures and import or export requirements that may prevent us from shipping products to a particular market and may increase our operating costs;
- foreign exchange controls that might prevent us from repatriating cash earned in countries outside the U.S.;
- complex data privacy requirements and labor relations laws;
- extraterritorial effects of U.S. laws such as the FCPA;
- effects of foreign anti-corruption laws, such as the UK Bribery Act;
- difficulty in staffing and managing foreign operations;
- labor force instability;
- potentially negative consequences from changes in tax laws; and
- political and economic instability.

Violations of foreign laws or regulations could result in fines, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business and damage to our reputation.

Disruptions in the supply of the materials and components used in manufacturing our products could adversely affect our results of operations and financial condition.

We purchase many of the materials and components used in manufacturing our products from third-party vendors and we outsource some key manufacturing activities. Certain of these materials and components and outsourced activities can only be obtained from a single source or a limited number of sources due to quality considerations, expertise, costs or constraints resulting from regulatory requirements. In certain cases we may not be able to establish additional or replacement vendors for such materials or components or outsourced activities in a timely or cost effective manner, largely as a result of FDA regulations that require validation of materials and components prior to their use in our products and the complex nature of our and many of our vendors' manufacturing processes. A reduction or interruption in the supply of materials or components used in manufacturing our products; an inability to timely develop and validate alternative sources if required; or a significant increase in the price of such materials or components could adversely affect our financial condition and results of operations.

Moreover, we are subject to the SEC's rule regarding disclosure of the use of certain minerals, known as "conflict minerals" (tantalum, tin and tungsten (or their ores) and gold), which are mined from the Democratic Republic of the Congo and adjoining countries. We filed reports on Form SD with the SEC regarding such matters in June 2014 and 2015 and are required to file on an annual basis going forward. This rule could adversely affect the sourcing, availability and pricing of materials used in the manufacture of our products, which could adversely affect our manufacturing operations and our profitability. In addition, we are incurring additional costs to comply with this rule, including costs related to determining the source of any relevant minerals and metals used in our products. We have a complex supply chain and we may not be able to sufficiently verify the origins of the minerals and metals used in our products through the due diligence procedures that we implement. As a result, we may face reputational challenges with our customers and other stakeholders.

We may have additional tax liabilities.

We are subject to income taxes in the U.S. and many foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions

and calculations where the ultimate tax determination is uncertain. We regularly are under audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on our financial statements in the period or periods for which that determination is made.

We earn a significant amount of our operating income from outside the U.S., and any repatriation of funds representing earnings of foreign subsidiaries may significantly impact our effective tax rates. In addition, there have been proposals to change U.S. tax laws that would significantly impact how U.S. multinational corporations are taxed on foreign earnings. Although we cannot predict whether or in what form this proposed legislation will pass, if enacted it could have a material adverse impact on our tax expense and cash flow.

We are subject to risks arising from currency exchange rate fluctuations, which can increase our costs, cause our profitability to decline and expose us to counterparty risks.

A substantial portion of our foreign revenues is generated in Europe and Japan. The U.S. Dollar value of our foreign-generated revenues varies with currency exchange rate fluctuations. Significant increases in the value of the U.S. Dollar relative to the Euro or the Japanese Yen, as well as other currencies, could have a material adverse effect on our results of operations. Although we address currency risk management through regular operating and financing activities, and, on a limited basis, through the use of derivative financial instruments, those actions may not prove to be fully effective.

Pending and future product liability claims and litigation could adversely impact our financial condition and results of operations and impair our reputation.

Our business exposes us to potential product liability risks that are inherent in the design, manufacture and marketing of medical devices. In the ordinary course of business, we are the subject of product liability lawsuits alleging that component failures, manufacturing flaws, design defects or inadequate disclosure of product-related risks or product-related information resulted in an unsafe condition or injury to patients. As discussed further in Note 20 to the consolidated financial statements, we are defending product liability lawsuits relating to the Durom® Acetabular Component ("Durom Cup"), certain products within the NexGen Knee System, and the M2a-Magnum™ hip system. The majority of the Durom Cup cases are pending in a federal Multidistrict Litigation ("MDL") in the District of New Jersey (*In Re: Zimmer Durom Hip Cup Products Liability Litigation*); the majority of the NexGen Knee System cases are pending in a federal MDL in the Northern District of Illinois (*In Re: Zimmer NexGen Knee Implant Products Liability Litigation*); and the majority of the M2a-Magnum hip system cases are pending in a federal MDL in the Northern District of Indiana (*In Re: Biomet M2a Magnum Hip Implant Products Liability Litigation*). We are also currently defending a number of other product liability lawsuits and claims related to various other products. Any product liability claim brought against us, with or without merit, can be costly to defend. Product liability lawsuits and claims, safety alerts or product recalls, regardless of their ultimate outcome, could have a material adverse effect on our business and reputation and on our ability to attract and retain customers.

Although we maintain third-party product liability insurance coverage, we have substantial self-insured retention amounts that we must pay in full before obtaining any insurance proceeds to satisfy a judgment or settlement. Furthermore, even if any product liability loss is covered by our insurance, it is possible that claims against us may exceed the coverage limits of our insurance policies and we would have to pay the amount of any settlement or judgment that is in excess of our policy limits. Product liability claims in excess of applicable insurance could have a material adverse effect on our business, financial condition and results of operations.

We are substantially dependent on patent and other proprietary rights, and failing to protect such rights or to be successful in litigation related to our rights or the rights of others may result in our payment of significant monetary damages and/or royalty payments, negatively impact our ability to sell current or future products, or prohibit us from enforcing our patent and other proprietary rights against others.

Claims of intellectual property infringement and litigation regarding patent and other intellectual property rights are commonplace in our industry and are frequently time consuming and costly. At any given time, we may be involved as either plaintiff or defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time. While it is not possible to predict the outcome of patent and other intellectual property litigation, such litigation could result in our payment of significant monetary damages and/or royalty payments, negatively impact our ability to sell current or future products, or prohibit us from enforcing our patent and proprietary rights against others, which could have a material adverse effect on our business and results of operations.

Patents and other proprietary rights are essential to our business. We rely on a combination of patents, trade secrets and non-disclosure and other agreements to protect our proprietary intellectual property, and we will continue to do so. While we intend to defend against any threats to our intellectual property, these patents, trade secrets and other agreements may not adequately protect our intellectual property. Further, our currently pending or future patent applications may not result in patents being issued to us, patents issued to or licensed by us in the past or in the future may be challenged or circumvented by competitors, and such patents may be found invalid, unenforceable or insufficiently broad to protect our technology or to provide us with any competitive advantage. Third parties could obtain patents that

may require us to negotiate licenses to conduct our business, and the required licenses may not be available on reasonable terms or at all.

In addition, intellectual property rights may be unavailable or of limited effect in some foreign countries. If we do not obtain sufficient international protection for our intellectual property, our competitiveness in international markets could be impaired, which could limit our growth and revenue.

We also attempt to protect our trade secrets, proprietary know-how and continuing technological innovation with security measures, including the use of non-disclosure and other agreements with our employees, consultants and collaborators. We cannot be certain that these agreements will not be breached, that we will have adequate remedies for any breach, that others will not independently develop substantially equivalent proprietary information, or that third parties will not otherwise gain access to our trade secrets or proprietary knowledge.

We are involved in legal proceedings that may result in adverse outcomes.

In addition to intellectual property and product liability claims and lawsuits, we are involved in various commercial litigation and claims and other legal proceedings that arise from time to time in the ordinary course of our business. Although we believe we have substantial defenses in these matters, litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. Given the uncertain nature of legal proceedings generally, we are not able in all cases to estimate the amount or range of loss that could result from an unfavorable outcome. We could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on our results of operations in any particular period.

We are increasingly dependent on sophisticated information technology and if we fail to effectively maintain or protect the integrity of our information systems and data, our business could be adversely affected.

We are increasingly dependent on sophisticated information technology for our products and infrastructure. As a result of technology initiatives, recently enacted regulations, changes in our system platforms and integration of new business acquisitions, including the Biomet merger, we have been consolidating and integrating the number of systems we operate and have upgraded and expanded our information systems capabilities. Our information systems require an ongoing commitment of significant resources to maintain, protect, and enhance existing systems and develop new systems to keep pace with continuing changes in information technology, evolving systems and regulatory standards, and the increasing need to protect patient and customer information. In addition, third parties may attempt to gain unauthorized access to our products or systems and may obtain data relating to patients or our proprietary information. If we fail to maintain or protect our information systems and data integrity effectively, we could:

- lose existing customers;
- have difficulty attracting new customers;
- have problems in determining product cost estimates and establishing appropriate pricing;
- have difficulty preventing, detecting, and controlling fraud;
- have disputes with customers, physicians, and other healthcare professionals;
- have regulatory sanctions or penalties imposed;
- incur increased operating expenses;
- incur expenses or lose revenues as a result of a data privacy breach; or
- suffer other adverse consequences.

While we have invested heavily in the protection of our data and information technology, there can be no assurance that our activities related to consolidating the number of systems we operate, upgrading and expanding our information systems capabilities, protecting and enhancing our systems and implementing new systems will be successful or that systems issues will not arise in the future. Any significant breakdown, intrusion, interruption, corruption or destruction of these systems could have a material adverse effect on our business.

Future material impairments in the carrying value of our intangible assets, including goodwill, would negatively affect our operating results.

Our assets include intangible assets, primarily goodwill. At December 31, 2015, we had $9.9 billion in goodwill. The goodwill results from our acquisition activity, including the Biomet merger, and represents the excess of the consideration transferred over the fair value of the net assets acquired. We assess at least annually whether events or changes in circumstances indicate that the carrying value of our intangible assets may not be recoverable. If the operating performance at one or more of our business units falls significantly below current levels, if competing or alternative technologies emerge, or if market conditions or future cash flow estimates for one or more of our businesses decline, we could be required, under current U.S. accounting rules, to record a non-cash charge to operating earnings for the amount of the impairment. Any write-off of a material portion of our unamortized intangible assets would negatively affect our results of operations.

Certain investors continue to have influence over us, including in connection with decisions that require the approval of stockholders, which could limit other stockholders' ability to influence the outcome of key transactions, including a change of control.

In connection with our acquisition of Biomet, we entered into a stockholders agreement (the "stockholders agreement") with LVB Acquisition Holding, LLC and its owners party thereto (collectively, the "Sponsors"). The Sponsors and certain of their affiliates currently hold approximately 9.4% of our common stock. In addition, representatives of the Sponsors currently have the right to designate two members of our board of directors. As a result, the Sponsors potentially have the ability to influence our decisions to enter into any corporate transaction (and the terms thereof).

Additionally, the Sponsors are in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. One

or more of these entities may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us.

Future sales, or the perception of future sales, by us or our existing stockholders in the public market could cause the market price for our common stock to decline.

Pursuant to the stockholders' agreement, we have filed a shelf registration statement with the SEC, registering shares of our common stock for resale by the Sponsors. Two of the Sponsors recently completed the sale of approximately 11.0 million shares of our common stock in an underwritten offering. The Sponsors own approximately 18.6 million additional shares that may be offered and sold under the resale registration statement. The sale of a substantial number of shares of our common stock in the public market by us or our existing stockholders, or the perception that such sales could occur, could harm the prevailing market price of shares of our common stock. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Anti-takeover provisions in our organizational documents could delay or prevent a change of control.

Certain provisions of our Restated Certificate of Incorporation, our Restated By-Laws and the Delaware General Corporation Law may have an anti-takeover effect and may delay, defer or prevent a merger, acquisition, tender offer, takeover attempt or other change of control transaction that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by our stockholders.

These provisions provide for, among other things:

- the ability of our board of directors to issue one or more series of preferred stock without further stockholder action;
- advance notice for nominations of directors by stockholders and for stockholders to include matters to be considered at our annual meetings;
- certain limitations on convening special stockholder meetings; and
- the prohibition on engaging in a "business combination" with an "interested stockholder" for three years after the time at which a person became an interested stockholder unless certain conditions are met, as set forth in Section 203 of the Delaware General Corporation Law.

These anti-takeover provisions could make it more difficult for a third party to acquire us, even if the third party's offer may be considered beneficial by many of our stockholders. As a result, our stockholders may be limited in their ability to obtain a premium for their shares.

Our Restated By-Laws designate certain Delaware courts as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.

Our Restated By-Laws provide that, unless we consent in writing to the selection of an alternative forum, a state court located within the State of Delaware (or, if no state court located in the State of Delaware has jurisdiction, the federal district court for the District of Delaware) will be the sole and exclusive forum for any stockholder (including any beneficial owner) to bring (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim against us or any of our directors, officers or other employees arising pursuant to any provision of the Delaware General Corporation Law or our Restated Certificate of Incorporation or our Restated By-Laws, as either may be amended from time to time, or (iv) any action asserting a claim against us or any of our directors, officers or other employees governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our common stock is deemed to have received notice of and consented to the foregoing provisions. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find this choice of forum provision inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations.

We identified a material weakness in our internal control over financial reporting in 2015. While the particular material weakness has been remediated as of December 31, 2015, additional material weaknesses or relapses of this material weakness could result in a material misstatement in our financial statements.

We are responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. As discussed in Part II, Item 9A of this report, we identified a material weakness in our internal control over financial reporting during the three month period ended September 30, 2015 related to the control over accounting for non-routine, complex transactions. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. During the fourth quarter of 2015, we executed our remediation plans to address the material weakness. However, if the remedial measures are not adhered to or if additional material weaknesses or significant deficiencies in internal control over financial reporting are discovered or occur in the future, our

consolidated financial statements may contain material misstatements and we could be required to restate our financial results.

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties

The following are our principal properties:

Location	Use	Owned /Leased	Square Feet
Warsaw, Indiana	Business Unit Headquarters, Manufacturing, Warehousing, Marketing & Administration	Owned	1,900,000
Warsaw, Indiana	Corporate Headquarters	Owned	115,000
Warsaw, Indiana	Manufacturing & Warehousing	Leased	145,000
Broomfield, Colorado	Business Unit Headquarters	Leased	65,000
Jacksonville, Florida	Business Unit Headquarters & Manufacturing	Owned	85,000
Palm Beach Gardens, Florida	Business Unit Headquarters & Manufacturing	Owned	190,000
		Leased	30,000
Southaven, Mississippi	Distribution Center	Leased	190,000
Parsippany, New Jersey	Business Unit Headquarters & Manufacturing	Leased	245,000
Dover, Ohio	Business Unit Headquarters & Manufacturing	Owned	140,000
		Leased	65,000
Beijing, China	Manufacturing	Leased	95,000
Changzhou, China	Manufacturing	Owned	75,000
Jinhua, China	Manufacturing	Owned	135,000
Valence, France	Manufacturing	Owned	120,000
Berlin, Germany	Manufacturing	Owned	50,000
Eschbach, Germany	Distribution Center	Owned	95,000
Galway, Ireland	Manufacturing	Leased	115,000
Shannon, Ireland	Manufacturing	Owned	125,000
Hazeldonk, The Netherlands	Distribution Center	Leased	195,000
Ponce, Puerto Rico	Manufacturing	Owned	225,000
Singapore	Regional Headquarters	Leased	20,000
Bridgend, South Wales	Manufacturing	Owned	185,000
		Leased	100,000
Valencia, Spain	Manufacturing	Owned	70,000
		Leased	20,000
Winterthur, Switzerland	Regional Headquarters, Research & Development & Manufacturing	Leased	485,000

In addition to the above, we maintain sales and administrative offices and warehouse and distribution facilities in more than 40 countries around the world. We believe that all of the facilities and equipment are in good condition, well maintained and able to operate at present levels. We believe the current facilities, including manufacturing, warehousing, research and development and office space, provide sufficient capacity to meet ongoing demands.

Item 3. Legal Proceedings

Information pertaining to legal proceedings in which we are involved can be found in Note 20 to our consolidated financial statements included in Part II, Item 8 of this report and is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange and the SIX Swiss Exchange under the symbol "ZBH." The high and low sales prices for our common stock on the New York Stock Exchange and the dividends declared for the calendar quarters of fiscal years 2015 and 2014 are as follows:

QUARTERLY HIGH-LOW SHARE PRICES AND DECLARED DIVIDENDS	High	Low	Declared Dividends
Year Ended December 31, 2015:			
First Quarter	$121.84	$111.06	$ 0.22
Second Quarter	$119.10	$ 97.48	$ 0.22
Third Quarter	$111.35	$ 90.92	$ 0.22
Fourth Quarter	$108.99	$ 88.77	$ 0.22
Year Ended December 31, 2014:			
First Quarter	$ 98.95	$ 90.77	$ 0.22
Second Quarter	$108.33	$ 90.48	$ 0.22
Third Quarter	$105.68	$ 94.73	$ 0.22
Fourth Quarter	$116.14	$ 95.33	$ 0.22

We expect to continue paying cash dividends on a quarterly basis; however, future dividends are subject to approval of the Board of Directors and may be adjusted as business needs or market conditions change. As further discussed in Item 7 of this report, our debt facilities restrict the payment of dividends under certain circumstances.

The number of holders of record of our common stock on February 24, 2016 was approximately 26,600. On February 25, 2016, the closing price of our common stock, as reported on the New York Stock Exchange, was $96.89 per share.

The information required by this Item concerning equity compensation plans is incorporated herein by reference to Item 12 of this report.

The following table summarizes repurchases of common stock settled during the three months ended December 31, 2015:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs[1]
October 2015	–	$ –	–	$ 599,534,755
November 2015	1,414,960	106.01	1,414,960	449,534,731
December 2015	–	–	–	449,534,731
Total	1,414,960	$ 106.01	1,414,960	$ 449,534,731

[1] Includes repurchases made under a program authorizing $1.0 billion of repurchases with no expiration date.

Item 6. Selected Financial Data

The financial information for each of the past five years ended December 31 is set forth below (in millions, except per share amounts):

		As Revised[2]			
	2015[1]	2014	2013	2012	2011
STATEMENT OF EARNINGS DATA					
Net sales	$ 5,997.8	$4,673.3	$4,623.4	$4,471.7	$4,451.8
Net earnings of Zimmer Biomet Holdings, Inc.	147.0	720.3	780.4	734.0	784.0
Earnings per common share					
Basic	$ 0.78	$ 4.26	$ 4.60	$ 4.20	$ 4.18
Diluted	0.77	4.20	4.54	4.17	4.15
Dividends declared per share of common stock	$ 0.88	$ 0.88	$ 0.80	$ 0.54	$ 0.18
Average common shares outstanding					
Basic	187.4	169.0	169.6	174.9	187.6
Diluted	189.8	171.7	171.8	176.0	188.7
BALANCE SHEET DATA					
Total assets	$27,219.5	$9,658.0	$9,595.0	$8,995.6	$8,514.4
Long-term debt	11,556.3	1,425.5	1,672.3	1,720.8	1,576.0
Other long-term obligations	4,155.9	656.8	583.6	568.2	558.2
Stockholders' equity	9,889.4	6,551.7	6,310.6	5,848.0	5,513.0

(1) Includes the results of Biomet starting on June 24, 2015 and Biomet balance sheet data as of December 31, 2015. See Note 4 to the audited financial statements for additional information on the Biomet merger.
(2) See Note 2 to the audited financial statements for additional information on revisions.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the consolidated financial statements and the corresponding notes included elsewhere in this Annual Report on Form 10-K. Certain percentages presented in this discussion and analysis are calculated from the underlying whole-dollar amounts and therefore may not recalculate from the rounded numbers used for disclosure purposes. Certain amounts in the 2014 and 2013 consolidated financial statements have been reclassified to conform to the 2015 presentation. Additionally, as more fully described in Note 2 of the consolidated financial statements included in Part II, Item 8 of this report, due to accounting errors in prior periods, certain amounts in the 2014 and 2013 consolidated financial statements have been revised.

On June 24, 2015, we completed our merger with Biomet and its results of operations have been included in our results starting on that date. The Biomet merger is a transformational event for us and has had significant effects on all aspects of our business. Accordingly, our revenues and expenses increased significantly in the year ended December 31, 2015.

In portions of this discussion and analysis, we also present sales information on an unaudited, pro forma basis for the years ended December 31, 2015 and 2014. This pro forma information includes Zimmer and Biomet sales in those periods as if the merger occurred on January 1, 2014. Accordingly, the pro forma net sales information for periods prior to the Closing Date includes the net sales of Biomet, but does not include the impact of the divestiture of certain product line rights and assets. We believe this pro forma analysis is beneficial for investors because it represents how the merged companies may have performed on a combined basis in 2015 and 2014. Such pro forma net sales information may not be indicative, however, of future operating performance.

EXECUTIVE LEVEL OVERVIEW

2015 Results

The last half of 2015 was significantly affected by our Biomet integration activities. We made significant progress by accomplishing important commercial integration milestones across all geographies. We largely completed the appointment of our global sales leaders. We also began to execute our integration roadmaps designed to capture the net operating synergy opportunities presented by this merger.

Our results have been significantly impacted by the Biomet merger. Our sales for 2015 increased by 28.3 percent primarily due to the Biomet merger. Volume/mix growth from the merger was partially offset by the negative effects of changes in foreign currency exchange rates and continued, but stable, pricing pressure in all of our geographic regions.

Our net earnings decreased in 2015 compared to 2014. The primary driver of the lower net earnings was expense incurred in connection with the Biomet merger. As a result of the merger, we recognized significant expenses due to stepping up the acquired inventory to fair value, intangible asset amortization, the acceleration of the vesting of unvested LVB stock options and LVB stock-based awards, retention bonuses paid to Biomet employees and third-party sales agents who remained with Biomet through the Closing Date, severance expense, contract termination expense related to agreements with independent agents, distributors, suppliers and lessors, a loss related to a call premium on Biomet debt we redeemed, third party fees, and other acquisition and integration charges. Interest expense also increased due to financing-related costs for the merger.

2016 Outlook

We expect our sales in the first half of 2016 to be higher than in the first half of 2015, on a reported basis, since the Biomet merger was completed midway through 2015. On a pro forma basis, we expect revenues to be approximately flat in 2016 compared to 2015. This estimate assumes foreign currency exchange rates will decrease revenues by approximately 2 percent, continued pricing pressure will decrease revenues by approximately 2 percent, and our volume/mix growth will be approximately 4 percent. We expect pro forma sales growth will improve in the last half of the year compared to the first half as our sales force stabilizes, we take advantage of cross-selling opportunities and we anniversary out of many sales force dissynergies caused by the merger.

We expect cost of products sold to continue to realize significant expense related to stepping up acquired Biomet inventory to fair value. Similarly, our intangible asset amortization expense will increase significantly as we recognize a full year of intangible asset amortization from the Biomet merger. We expect research and development ("R&D") expense for the year to be in a range of 4.5 to 5.0 percent of sales. Selling, general and administrative ("SG&A") expense is expected to approximate 37 percent of sales, which is an improvement from 2015 as we realize synergies from the merger. We estimate special items expense will continue to be significant as we continue our integration activities. However, we expect special items expense will be less in 2016 compared to 2015 due to the significant, initial expenses incurred in 2015 for the integration. Interest expense will increase in 2016 compared to 2015 due to the debt borrowed in 2015 to fund the Biomet merger.

RESULTS OF OPERATIONS

We analyze sales by three geographies, the Americas, EMEA and Asia Pacific, and by the following product

categories: Knees, Hips, S.E.T., Dental, Spine & CMF and Other. This sales analysis differs from our reportable operating segments, which are based upon our senior management organizational structure and how we allocate resources towards achieving operating profit goals. We analyze sales by geography because the underlying market trends in any particular geography tend to be similar across product categories and because we primarily sell the same products in all geographies.

Net Sales by Geography

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

	Year Ended December 31,					
	2015	2014	% Inc	Volume/ Mix	Price	Foreign Exchange
Americas	$ 3,662.4	$ 2,594.2	41.2%	44.3%	(2.3)%	(0.8)%
EMEA	1,417.8	1,269.5	11.7	27.9	(1.1)	(15.1)
Asia Pacific	917.6	809.6	13.3	26.0	(2.2)	(10.5)
Total	$ 5,997.8	$ 4,673.3	28.3	36.7	(2.0)	(6.4)

	Year Ended December 31,					
	2014	2013	% Inc/(Dec)	Volume/ Mix	Price	Foreign Exchange
Americas	$ 2,594.2	$ 2,619.8	(1.0)%	2.4%	(3.0)%	(0.4)%
EMEA	1,269.5	1,212.6	4.7	7.3	(1.8)	(0.8)
Asia Pacific	809.6	791.0	2.4	9.0	(1.3)	(5.3)
Total	$ 4,673.3	$ 4,623.4	1.1	4.8	(2.4)	(1.3)

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

The following table presents our pro forma net sales by geography and the components of the percentage changes (dollars in millions):

	Year Ended December 31,						
	Pro Forma 2015	Pro Forma 2014	% (Dec)	Volume/ Mix	Price	Divestiture Impact	Foreign Exchange
Americas	$ 4,685.2	$ 4,748.6	(1.3)%	1.6%	(1.5)%	(0.9)%	(0.5)%
EMEA	1,767.9	2,072.6	(14.7)	1.6	(1.0)	(0.5)	(14.8)
Asia Pacific	1,064.7	1,144.1	(6.9)	5.6	(1.9)	–	(10.6)
Total	$ 7,517.8	$ 7,965.3	(5.6)	2.3	(1.5)	(0.7)	(5.7)

Net Sales by Product Category

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

	Year Ended December 31,					
	2015	2014	% Inc	Volume/ Mix	Price	Foreign Exchange
Knees	$ 2,276.8	$ 1,895.2	20.1%	28.8%	(2.4)%	(6.3)%
Hips	1,537.2	1,326.4	15.9	26.1	(2.4)	(7.8)
S.E.T.	1,214.9	863.2	40.7	46.8	(0.7)	(5.4)
Dental	335.7	242.8	38.2	45.0	(1.1)	(5.7)
Spine & CMF	404.4	207.2	95.2	101.2	(1.6)	(4.4)
Other	228.8	138.5	65.3	70.4	(1.8)	(3.3)
Total	$ 5,997.8	$ 4,673.3	28.3	36.7	(2.0)	(6.4)

	Year Ended December 31,					
	2014	2013	% Inc/(Dec)	Volume/ Mix	Price	Foreign Exchange
Knees	$ 1,895.2	$ 1,862.2	1.8%	6.3%	(3.2)%	(1.3)%
Hips	1,326.4	1,330.5	(0.3)	3.9	(2.6)	(1.6)
S.E.T.	863.2	847.2	1.9	4.5	(1.2)	(1.4)
Dental	242.8	239.3	1.5	2.5	(0.4)	(0.6)
Spine & CMF	207.2	202.3	2.4	5.0	(2.0)	(0.6)
Other	138.5	141.9	(2.4)	(0.3)	(1.4)	(0.7)
Total	$ 4,673.3	$ 4,623.4	1.1	4.8	(2.4)	(1.3)

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

	Year Ended December 31,						
	Pro Forma 2015	Pro Forma 2014	% (Dec)	Volume/ Mix	Price	Divestiture Impact	Foreign Exchange
Knees	$ 2,735.9	$ 2,888.9	(5.3)%	3.7%	(1.9)%	(1.1)%	(6.0)%
Hips	1,842.6	1,984.3	(7.1)	2.2	(2.1)	–	(7.2)
S.E.T.	1,571.8	1,619.1	(2.9)	3.0	(0.7)	(0.3)	(4.9)
Dental	454.8	500.4	(9.1)	(3.5)	0.1	–	(5.7)
Spine & CMF	583.5	604.1	(3.4)	0.1	(0.7)	–	(2.8)
Other	329.2	368.5	(10.6)	(1.4)	(1.2)	(4.8)	(3.2)
Total	$ 7,517.8	$ 7,965.3	(5.6)	2.3	(1.5)	(0.7)	(5.7)

The following table presents net sales by product category by geography for our Knees and Hips product categories, which represent our most significant product categories (dollars in millions):

	Year Ended December 31,				
	2015	2014	2013	2015 vs. 2014 % Inc	2014 vs. 2013 % Inc/(Dec)
Knees					
Americas	$1,391.5	$1,086.8	$1,087.5	28.0%	(0.1)%
EMEA	535.2	498.6	468.4	7.3	6.5
Asia Pacific	350.1	309.8	306.3	13.0	1.1
Total	2,276.8	1,895.2	1,862.2	20.1	1.8
Hips					
Americas	789.8	607.8	621.0	29.9	(2.1)
EMEA	459.2	448.9	445.0	2.3	0.9
Asia Pacific	288.2	269.7	264.5	6.9	2.0
Total	1,537.2	1,326.4	1,330.5	15.9	(0.3)

The following table presents our pro forma net sales by product category by geography for our Knees and Hips product categories, which represent our most significant product categories (dollars in millions):

	Year Ended December 31,		
	Pro Forma 2015	Pro Forma 2014	2015 vs. 2014 % Inc/(Dec)
Knees			
Americas	$1,684.6	$1,708.4	(1.4)%
EMEA	649.5	752.3	(13.7)
Asia Pacific	401.8	428.2	(6.1)
Total	2,735.9	2,888.9	(5.3)
Hips			
Americas	980.3	998.4	(1.8)
EMEA	537.2	625.9	(14.2)
Asia Pacific	325.1	360.0	(9.7)
Total	1,842.6	1,984.3	(7.1)

Demand (Volume and Mix) Trends

Increased volume and changes in the mix of product sales contributed 36.7 percentage points of year-over-year sales growth during 2015. Volume/mix growth was driven by the Biomet merger, new product introductions and sales in key emerging markets.

We believe long-term indicators point toward sustained growth driven by an aging global population, growth in emerging markets, obesity, proven clinical benefits, new material technologies, advances in surgical techniques and more active lifestyles, among other factors. In addition, demand for clinically proven premium products and patient specific devices are expected to continue to positively affect sales growth in markets that recognize the value of these advanced technologies.

Pricing Trends

Global selling prices had a negative effect of 2.0 percentage points on year-over-year sales during 2015. The negative 2.0 percent effect on year-over-year sales is consistent with what we have experienced over the past three years. The majority of countries in which we operate continued to experience pricing pressure from governmental healthcare cost containment efforts and from local hospitals and health systems.

Foreign Currency Exchange Rates

In 2015, changes in foreign currency exchange rates had a negative effect of 6.4 percentage points on year-over-year sales. We address currency risk through regular operating and financing activities and through the use of forward contracts and foreign currency options solely to manage foreign currency volatility and risk. Changes in foreign currency exchange rates affect sales growth, but due to offsetting gains/losses on hedge contracts and options, which are recorded in cost of products sold, the effect on net earnings in the near term is reduced.

Sales by Product Category

Knees

Knee sales increased in 2015 when compared to 2014 due to the Biomet merger. On a pro forma basis, Knee sales declined in 2015 due to changes in foreign currency exchange

rates, the divestiture of certain product line rights and assets and continued pricing pressure. The volume/mix growth on a pro forma basis was driven by recent product introductions, such as Persona The Personalized Knee System. In particular, our EMEA and Asia Pacific operating segments experienced strong volume/mix growth in this product category.

Hips

Hip sales increased in 2015 when compared to 2014 due to the Biomet merger. On a pro forma basis, positive volume and mix trends were more than offset by pricing pressure and the negative effects of changes in foreign currency exchange rates.

S.E.T.

Our S.E.T. product category sales increased in 2015 compared to 2014 due to the Biomet merger. On a pro forma basis, positive volume and mix trends were more than offset by pricing pressure, the divestiture of certain product line rights and assets and the negative effects of changes in foreign currency exchange rates. On a pro forma basis within this category, our Extremities business achieved solid sales growth from sales of our shoulder and elbow products.

Dental

Dental sales increased in 2015 compared to 2014 due to the Biomet merger. On a pro forma basis, sales in 2015 declined partly due to a supply disruption related to a voluntary field action in response to a packaging issue and the negative effects of changes in foreign currency exchange rates. We are in the process of remediating the supply disruption and we expect to do so fully by the close of the first quarter of 2016.

Spine & CMF

Spine and CMF sales increased in 2015 compared to 2014 due to the Biomet merger. On a pro forma basis, strong sales of our CMF products were offset by a decline in Spine product sales.

The following table presents estimated* 2015 global market size and market share information (dollars in billions):

	Global Market Size	Global Market % Growth**	Zimmer Biomet Market Share	Zimmer Biomet Market Position
Knees	$ 7.5	3%	37%	1
Hips	6.1	1	30	1
S.E.T.	14.8	5	11	5
Dental	4.1	4	11	4
Spine & CMF	10.6	1	6	5

* Estimates are not precise and are based on competitor annual filings, Wall Street equity research and Company estimates

** Excludes the effect of changes in foreign currency exchange rates on sales growth

Expenses as a Percent of Net Sales

	Year Ended December 31,				
	2015	2014	2013	2015 vs. 2014 Inc/(Dec)	2014 vs. 2013 Inc/(Dec)
Cost of products sold, excluding intangible asset amortization	30.0%	26.6%	27.4%	3.4	(0.8)
Intangible asset amortization	5.6	2.0	1.7	3.6	0.3
Research and development	4.5	4.0	4.4	0.5	(0.4)
Selling, general and administrative	38.1	37.5	37.8	0.6	(0.3)
Certain claims	0.1	0.5	1.0	(0.4)	(0.5)
Special items	13.9	7.3	4.5	6.6	2.8
Operating Profit	7.8	22.2	23.1	(14.4)	(0.9)

Cost of Products Sold and Intangible Asset Amortization

The following table sets forth the factors that contributed to the gross margin changes in each of 2015 and 2014 compared to the prior year:

	Year Ended December 31,	
	2015	2014
Prior year gross margin	71.4%	70.6%
Lower average selling prices	(0.6)	(0.6)
Average cost per unit	1.3	0.4
Excess and obsolete inventory	(0.8)	0.4
Discontinued products and other certain excess and obsolete inventory charges	–	0.9
Certain inventory and manufacturing related charges related to quality	0.2	0.1
Foreign currency hedges	1.3	0.5
Inventory step-up	(5.1)	0.1
U.S. medical device excise tax	–	(0.5)
Intangible asset amortization	(3.5)	(0.2)
Other	0.2	(0.3)
Current year gross margin	64.4%	71.4%

The decrease in gross margin percentage in 2015 compared to 2014 was primarily due to increased inventory step-up costs as well as increased intangible asset amortization from the Biomet merger. The decline was also a result of lower average selling prices and higher excess and obsolete inventory charges. These unfavorable items were partially offset by higher hedge gains in 2015 from our foreign currency hedging program compared to 2014. Under the hedging program, for derivatives which qualify as hedges of future cash flows, the effective portion of changes in fair value is temporarily recorded in other comprehensive income and then recognized in cost of products sold when the hedged items affect earnings. Further, we experienced improved product category and geographic mix, resulting in lower average costs per unit sold as a percentage of sales.

In 2014, we experienced an increase in gross margin percentage compared to 2013, primarily due to significant excess and obsolete inventory charges related to products we

intend to discontinue. We also recognized higher hedge gains in 2014 from our foreign currency hedging program compared to 2013.

Operating Expenses

R&D expenses and R&D as a percentage of sales increased in 2015 compared to 2014. The primary driver of the increased expense was the Biomet merger. The combination of our R&D functions subsequent to the merger will allow us to allocate a greater portion of the combined R&D spending towards innovation efforts to address unmet clinical needs and create new-market adjacencies. Additionally, most of our R&D activities occur in the U.S., so expenses do not decrease proportionally to changes in net sales when there are significant changes in foreign currency exchange rates, which contributes to an increase in R&D as a percentage of sales. The increase in 2015 reverses a trend of declines in R&D expense and R&D as a percentage of sales. In prior years, the lower spending reflected a natural decline from certain large projects that achieved commercialization, including Persona The Personalized Knee System, and a dedication of resources to our quality and operational excellence initiatives. We expect R&D spending in 2016 to increase and be between 4.5 and 5.0 percent of sales.

SG&A as a percentage of sales increased in 2015 compared to 2014 after realizing improvements in 2014 and 2013 due to our operational excellence initiatives. The Biomet merger was the primary cause of the increase. We expect that SG&A as a percentage of sales will continue to be higher than prior to the Biomet merger until we can realize synergy benefits of the merger. Additionally, a significant portion of our SG&A expenses occur in the U.S., so expenses do not decrease proportionally to changes in net sales when there are significant changes in foreign currency exchange rates.

"Certain claims" expense is for estimated liabilities to Durom Cup patients undergoing revision surgeries. We recorded additional expense of $7.7 million in 2015 for Durom Cup-related claims. Since 2008, we have recognized $479.4 million for these claims. For more information regarding these claims, see Note 20 to the consolidated financial statements.

"Special items" have increased significantly in the past three years. The increases in 2015 were due to Biomet merger-related expenses such as the acceleration of unvested LVB stock options and LVB stock-based awards, retention bonuses paid to Biomet employees and third-party sales agents who remained with Biomet through the Closing Date, severance expense and contract terminations. "Special items" expense also includes our quality and operational excellence initiatives, which are intended to improve our future operating results by centralizing or outsourcing certain functions and improving quality, distribution, sourcing, manufacturing and our information technology systems. See Note 3 to the consolidated financial statements for more information regarding "Special items" charges.

Other Expense, Interest Income, Interest Expense, and Income Taxes

Other expense, net, represents debt issuance costs that we recognized for the bridge credit agreement that we entered into in May 2014 in connection with the Biomet merger, the net expense related to remeasuring monetary assets and liabilities denominated in a foreign currency other than an entity's functional currency offset by foreign currency forward exchange contracts we enter into to mitigate any gain or loss, and the call premium expense we recognized when we repaid Biomet's senior notes, partially offset by a gain related to selling certain product line rights and assets. The decrease in Other expense, net in 2015 compared to 2014, was driven by fewer months of debt issuance costs from the bridge credit agreement and the gains recognized on the sale of the product line rights and assets.

Net interest expense increased in 2015 due to the issuance of the debt in connection with the Biomet merger.

Our effective tax rate ("ETR") on earnings before income taxes for the years ended December 31, 2015, 2014 and 2013 was 4.6 percent, 23.4 percent and 22.8 percent, respectively. "Special items" expense has significantly affected our ETR as such expenses have generally been incurred within jurisdictions with higher tax rates, resulting in lower taxable income in these higher tax jurisdictions. The low 2015 tax rate results from operating losses in the U.S. caused by significant expenses incurred in connection with the merger. The U.S. has a higher tax rate compared to the majority of foreign operations where we realized operating income. We expect "Special items," the outcome of various federal, state and foreign audits, as well as expiration of certain statutes of limitations, to impact our ETR in future years. Currently, we cannot reasonably estimate the impact of these items on our financial results.

Segment Operating Profit

Similar to our consolidated results, our segment operating profit has been significantly impacted by the addition of Biomet sales and expenses to these segments. In the Americas, operating profit as a percentage of sales increased in 2015 compared to 2014, as we started to realize synergies of the merger. In EMEA, operating profit as a percentage of sales declined in 2015 compared to 2014 due to the increased Biomet expenses. This decline is expected to continue until we can realize the synergy benefits of the merger in this region. In the Asia Pacific segment, operating profit as a percentage of sales increased in 2015 compared to 2014 due to changes in foreign currency exchange rates and our hedging program.

Non-GAAP operating performance measures

We use financial measures that differ from financial measures determined in accordance with generally accepted accounting principles ("GAAP") to evaluate our operating performance. These non-GAAP financial measures exclude the impact of inventory step-up, certain other inventory and manufacturing related charges connected to quality enhancement and remediation efforts, "Certain claims," intangible asset amortization, "Special items," other expenses related to financing obtained for the Biomet merger, other expenses related to the call premium expense recognized to redeem the assumed Biomet senior notes, the interest expense incurred on issued debt during the period prior to the consummation of the Biomet merger and any related effects on

our income tax provision associated with these items and other certain tax adjustments. We use this information internally and believe it is helpful to investors because it provides useful period-to-period comparisons of our ongoing operating results, it helps to perform trend analysis and to better identify operating trends that may otherwise be masked or distorted by these types of items, and it provides additional transparency of certain items. Certain of these non-GAAP financial measures are used as metrics for our incentive compensation programs.

Our non-GAAP adjusted net earnings used for internal management purposes for the years ended December 31, 2015, 2014 and 2013 were $1,310.5 million, $1,098.0 million, and $1,069.0 million, respectively, and our non-GAAP adjusted diluted earnings per share were $6.90, $6.40, and $6.22, respectively.

The following are reconciliations from our GAAP net earnings and diluted earnings per share to our non-GAAP adjusted net earnings and non-GAAP adjusted diluted earnings per share used for internal management purposes (in millions, except per share amounts).

	Year ended December 31,		
	2015	2014	2013
Net Earnings of Zimmer Biomet Holdings, Inc.	$ 147.0	$ 720.3	$ 780.4
Inventory step-up and other inventory and manufacturing related charges	348.8	36.3	88.7
Certain claims	7.7	21.5	47.0
Intangible asset amortization	337.4	92.5	78.5
Special items			
Biomet merger-related	619.1	61.9	–
Other special items	212.7	279.2	210.3
Other expense, net	23.0	39.6	–
Interest expense on Biomet merger financing	70.0	–	–
Taxes on above items and other certain tax adjustments*	(455.2)	(153.3)	(135.9)
Adjusted Net Earnings	$1,310.5	$1,098.0	$1,069.0

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

	Year ended December 31,		
	2015	2014	2013
Diluted EPS	$ 0.77	$ 4.20	$ 4.54
Inventory step-up and other inventory and manufacturing related charges	1.84	0.21	0.52
Certain claims	0.04	0.13	0.27
Intangible asset amortization	1.78	0.54	0.46
Special items			
Biomet merger-related	3.26	0.36	–
Other special items	1.12	1.63	1.22
Other expense, net	0.12	0.23	–
Interest expense on Biomet merger financing	0.37	–	–
Taxes on above items and other certain tax adjustments*	(2.40)	(0.90)	(0.79)
Adjusted Diluted EPS	$ 6.90	$ 6.40	$ 6.22

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

LIQUIDITY AND CAPITAL RESOURCES

Cash flows provided by operating activities declined to $816.7 million in 2015, compared to $1,052.8 million in 2014. The decreased cash flows provided by operating activities in 2015 were primarily due to higher expenses related to the Biomet merger, a $97.6 million loss on our forward starting interest rate swaps we settled in March 2015 when we issued senior notes for the Biomet merger and inventory investments. These unfavorable items were partially offset by lower tax payments and the receipt of insurance proceeds related to Durom Cup product liability claims in the 2015 period. In 2014, we made significant tax payments for certain unresolved matters in order to limit the potential impact of IRS interest charges. In 2016, we estimate operating cash flows to be in a range of $1,650.0 million to $1,750.0 million, inclusive of approximately $290.0 million of outflows related to integration expenses to drive synergies.

Cash flows used in investing activities were $7,557.9 million in 2015 compared to $469.4 million in 2014. The primary investing activity in 2015 was the Biomet merger. We continued to invest in instruments for significant product launches, such as Persona The Personalized Knee System, as we deploy that system around the world. In 2016, we expect instrument investments to be in a range of $300.0 million to $325.0 million in support of our cross-sell initiatives as well as new product introductions. In 2015, we continued to invest in other property, plant and equipment at levels necessary to complete new product-related investments and to replace older machinery and equipment. In 2016, we expect to spend approximately $250.0 million on property, plant and equipment, including $105.0 million necessary to rationalize facilities and IT systems as well as to optimize our manufacturing and logistics network.

Cash flows provided by financing activities were $7,139.8 million in 2015, compared to a use of cash of $562.4 million in 2014. We issued debt in 2015 for the Biomet merger, which resulted in proceeds and related debt issuance costs. We also repaid Biomet's senior notes that we assumed in the merger. Additionally, with an increase in our stock price throughout 2014, many employees exercised stock options in the prior year. Accordingly, there were fewer stock options outstanding at the end of 2014, leading to fewer option exercises in 2015 compared to 2014.

In February, May, July and December 2015, our Board of Directors declared cash dividends of $0.22 per share. We expect to continue paying cash dividends on a quarterly basis; however, future dividends are subject to approval of the Board of Directors and may be adjusted as business needs or market conditions change. As further discussed below, our debt facilities restrict the payment of dividends in certain circumstances.

As of December 31, 2015, $449.5 million remained authorized under our $1.0 billion share repurchase program, which has no expiration date. In anticipation of the merger with Biomet, we suspended repurchases after the first quarter of 2014. We commenced share repurchases in the fourth quarter of 2015 and continued repurchases in the first two months of 2016.

Through February 25, 2016, we repurchased approximately $415.0 million of shares of our common stock, which includes the $250.0 million of shares that we repurchased from certain selling stockholders on February 10, 2016.

In order to achieve operational synergies, we expect cash outlays related to our integration plans to be approximately $290.0 million in 2016. These cash outlays are necessary to achieve our integration goals of net annual pre-tax operating profit synergies of $350.0 million by the end of the third year post-Closing Date.

Also as discussed in Note 20 to our consolidated financial statements, as of December 31, 2015, a short-term liability of $50.0 million and long-term liability of $264.6 million related to Durom Cup product liability claims was recorded on our consolidated balance sheet. We expect to continue paying these claims over the next few years. We expect to be reimbursed a portion of these payments for product liability claims from insurance carriers. As of December 31, 2015, we have received a portion of the insurance proceeds we estimate we will recover. We have a long-term receivable of $95.3 million remaining for future expected reimbursements from our insurance carriers. We also had a short-term liability of $33.4 million related to Biomet metal-on-metal hip implant claims.

At December 31, 2015, we had ten tranches of senior notes outstanding as follows (dollars in millions):

Principal	Interest Rate	Maturity Date
$ 500.0	1.450%	April 1, 2017
1,150.0	2.000	April 1, 2018
500.0	4.625	November 30, 2019
1,500.0	2.700	April 1, 2020
300.0	3.375	November 30, 2021
750.0	3.150	April 1, 2022
2,000.0	3.550	April 1, 2025
500.0	4.250	August 15, 2035
500.0	5.750	November 30, 2039
1,250.0	4.450	August 15, 2045

We issued $7.65 billion of senior notes in March 2015 (the “Merger Notes”), the proceeds of which were used to finance a portion of the cash consideration payable in the Biomet merger, pay merger related fees and expenses and pay a portion of Biomet’s funded debt. On June 24, 2015, we also borrowed $3.0 billion on a U.S. term loan (“U.S. Term Loan”) to fund the Biomet merger.

We may, at our option, redeem our senior notes, in whole or in part, at any time upon payment of the principal, any applicable make-whole premium, and accrued and unpaid interest to the date of redemption. In addition, the Merger Notes and the 3.375% Senior Notes due 2021 may be redeemed at our option without any make-whole premium at specified dates ranging from one month to six months in advance of the scheduled maturity date.

We have a $4.35 billion credit agreement (“Credit Agreement”) that contains: (i) a 5-year unsecured U.S. term loan facility (“U.S. Term Loan Facility”) in the principal amount of $3.0 billion, and (ii) a 5-year unsecured multicurrency revolving facility (“Multicurrency Revolving Facility”) in the principal amount of $1.35 billion. The Multicurrency Revolving Facility will mature in May 2019, with two one-year extensions available at our option. Borrowings under the Multicurrency Revolving Facility may be used for general corporate purposes. There were no borrowings outstanding under the Multicurrency Revolving Facility as of December 31, 2015. The U.S. Term Loan Facility will mature in June 2020, with principal payments due beginning September 30, 2015, as follows: $75.0 million on a quarterly basis during the first three years, $112.5 million on a quarterly basis during the fourth year, and $412.5 million on a quarterly basis during the fifth year. In 2015, we paid $500.0 million in principal under the U.S. Term Loan Facility, resulting in $2.5 billion in outstanding borrowings as of December 31, 2015.

We and certain of our wholly owned foreign subsidiaries are the borrowers under the Credit Agreement. Borrowings under the Credit Agreement bear interest at floating rates based upon indices determined by the currency of the borrowings plus an applicable margin determined by reference to our senior unsecured long-term credit rating, or at an alternate base rate, or, in the case of borrowings under the Multicurrency Revolving Facility only, at a fixed rate determined through a competitive bid process. The Credit Agreement contains customary affirmative and negative covenants and events of default for an unsecured financing arrangement, including, among other things, limitations on consolidations, mergers and sales of assets. Financial covenants include a consolidated indebtedness to consolidated EBITDA ratio of no greater than 5.0 to 1.0 through June 24, 2016 and no greater than 4.5 to 1.0 thereafter. If our credit rating falls below investment grade, additional restrictions would result, including restrictions on investments and payment of dividends. We were in compliance with all covenants under the Credit Agreement as of December 31, 2015.

Commitments under the Credit Agreement are subject to certain fees. On the Multicurrency Revolving Facility, we pay a facility fee at a rate determined by reference to our senior unsecured long-term credit rating.

We have a Japan Term Loan agreement with one of the lenders under the Credit Agreement for 11.7 billion Japanese Yen that will mature on May 31, 2018. Borrowings under the Japan Term Loan bear interest at a fixed rate of 0.61 percent per annum until maturity.

We also have other available uncommitted credit facilities totaling $35.8 million.

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

As of December 31, 2015, we had short-term and long-term investments in debt securities with a fair value of $273.1 million. These investments are in debt securities of many different issuers and, therefore, we believe we have no significant concentration of risk with a single issuer. All of these debt securities remain highly rated and we believe the risk of default by the issuers is low.

As of December 31, 2015, $921.9 million of our cash and cash equivalents and short-term and long-term investments were held in jurisdictions outside of the U.S. Of this amount, $564.7 million is denominated in U.S. Dollars and, therefore, bears no foreign currency translation risk. The balance of these assets is denominated in currencies of the various countries where we operate.

In light of our commitments under various credit facilities, as well as our expectation for continued business development, we have plans to repatriate a significant portion of our offshore earnings to the U.S. In particular, as a result of the Biomet merger we have unremitted foreign earnings of $4,387.9 million which we plan to repatriate to the U.S. in future periods. We have recorded a long-term liability of $1,494.9 million for the estimated tax impact of this repatriation.

Management believes that cash flows from operations and available borrowings under the Multicurrency Revolving Facility are sufficient to meet our working capital, capital expenditure and debt service needs, as well as return cash to stockholders in the form of dividends and share repurchases. Should additional investment opportunities arise, we believe that our earnings, balance sheet and cash flows will allow us to obtain additional capital, if necessary.

CONTRACTUAL OBLIGATIONS

We have entered into contracts with various third parties in the normal course of business that will require future payments. The following table illustrates our contractual obligations (in millions):

Contractual Obligations	Total	2016	2017 and 2018	2019 and 2020	2021 and Thereafter
Long-term debt	$11,551.4	$ –	$2,263.9	$3,987.5	$ 5,300.0
Interest payments	4,142.6	339.8	651.0	531.1	2,620.7
Operating leases	231.8	59.1	78.6	48.2	45.9
Purchase obligations	91.0	61.9	22.5	3.7	2.9
Other long-term liabilities	406.7	–	136.9	107.6	162.2
Total contractual obligations	$16,423.5	$460.8	$3,152.9	$4,678.1	$ 8,131.7

$93.5 million of the other long-term liabilities on our balance sheet as of December 31, 2015 are liabilities related to defined benefit pension plans. Defined benefit plan liabilities are based upon the underfunded status of the respective plans; they are not based upon future contributions. Due to uncertainties regarding future plan asset performance, changes in interest rates and our intentions with respect to voluntary contributions, we are unable to reasonably estimate future contributions beyond 2016. Therefore, this table does not include any amounts related to future contributions to our plans. See Note 15 to our consolidated financial statements for further information on our defined benefit plans.

Also included in other long-term liabilities on our balance sheet are liabilities related to unrecognized tax benefits and corresponding interest and penalties thereon. Due to the uncertainties inherent in these liabilities, such as the ultimate timing and resolution of tax audits, we are unable to reasonably estimate the amount or period in which potential tax payments related to these positions will be made. Therefore, this table does not include any obligations related to unrecognized tax benefits. We have also excluded long-term deferred tax liabilities from this table, as they do not represent liabilities that will be settled in cash. See Note 16 to our consolidated financial statements for further information on these tax-related accounts.

We have entered into various agreements that may result in future payments dependent upon various events such as the achievement of certain product R&D milestones, sales milestones, or, at our discretion, to maintain exclusive rights to distribute a product. Since there is uncertainty on the timing or whether such payments will have to be made, we have not included them in this table. These payments could range from $0 to $45 million.

CRITICAL ACCOUNTING ESTIMATES

Our financial results are affected by the selection and application of accounting policies and methods. Significant accounting policies which require management's judgment are discussed below.

Excess Inventory and Instruments – We must determine as of each balance sheet date how much, if any, of our inventory may ultimately prove to be unsaleable or unsaleable at our carrying cost. Similarly, we must also determine if instruments on hand will be put to productive use or remain undeployed as a result of excess supply. Accordingly, inventory and instruments are written down to their net realizable value. To determine the appropriate net realizable value, we evaluate current stock levels in relation to historical and expected patterns of demand for all of our products and instrument systems and components. The basis for the determination is generally the same for all inventory and instrument items and categories except for work -in-process inventory, which is recorded at cost. Obsolete or discontinued items are generally destroyed and completely written off. Management evaluates the need for changes to inventory and instruments net realizable values based on market conditions, competitive offerings and other factors on a regular basis.

Income Taxes – Our income tax expense, deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax expense.

We estimate income tax expense and income tax liabilities and assets by taxable jurisdiction. Realization of deferred tax assets in each taxable jurisdiction is dependent on our ability to generate future taxable income sufficient to realize the benefits. We evaluate deferred tax assets on an ongoing basis and provide valuation allowances unless we determine it is "more likely than not" that the deferred tax benefit will be realized. Federal income taxes are provided on the portion of the income of foreign subsidiaries that is expected to be remitted to the U.S.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. We are subject to regulatory review or audit in virtually all of those jurisdictions and those reviews and audits may require extended periods of time to resolve. We record our income tax provisions based on our knowledge of all relevant facts and circumstances, including existing tax laws, our experience with previous settlement agreements, the status of current examinations and our understanding of how the tax authorities view certain relevant industry and commercial matters.

We recognize tax liabilities in accordance with the Financial Accounting Standards Board's ("FASB") guidance on income taxes and we adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined.

Commitments and Contingencies – Accruals for product liability and other claims are established with the assistance of internal and external legal counsel based on current information and historical settlement information for claims, related legal fees and for claims incurred but not reported. We use an actuarial model to assist management in determining an appropriate level of accruals for product liability claims. Historical patterns of claim loss development over time are statistically analyzed to arrive at factors which are then applied to loss estimates in the actuarial model.

In addition to our general product liability, we have recorded provisions totaling $479.4 million related to the Durom Cup, including $7.7 million in 2015. See Note 20 to our consolidated financial statements for further discussion of the Durom Cup litigation.

Goodwill and Intangible Assets – We evaluate the carrying value of goodwill and indefinite life intangible assets annually, or whenever events or circumstances indicate the carrying value may not be recoverable. We evaluate the carrying value of finite life intangible assets whenever events or circumstances indicate the carrying value may not be recoverable. Significant assumptions are required to estimate the fair value of goodwill and intangible assets, most notably estimated future cash flows generated by these assets. As such, these fair value measurements use significant unobservable inputs. Changes to these assumptions could require us to record impairment charges on these assets.

We have seven reporting units with goodwill assigned to them. Two of these reporting units, CMF and Bone Healing, consist entirely of assets and liabilities acquired in the Biomet merger. Since these assets and liabilities were valued at their estimated fair value on the Closing Date, in our 2015 impairment test, the carrying value approximated the fair value. Therefore, if these reporting units perform below what we expected at the time that we estimated their fair value, we may be required to record impairment charges.

Our other five reporting units consist of combined Zimmer and Biomet assets and liabilities. In our 2015 impairment test, our EMEA reporting unit's estimated fair value only exceeded the carrying value of its net assets by 8 percent, or approximately $240 million. This reporting unit's estimated fair value has significantly decreased from prior year impairment tests due to the weakening of the Euro against the U.S. Dollar. For our other four reporting units, their estimated fair value exceeded their carrying value by more than 20 percent.

Share-based Payment – We measure share-based payment expense at the grant date based on the fair value of the award and recognize expense over the requisite service period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating the expected life of stock options and the expected volatility of our stock. Additionally, we must estimate the amount of share-based awards that are expected to be forfeited. We estimate expected volatility based upon the implied volatility of actively traded options on our stock. The expected life of stock options and estimated forfeitures are based upon our employees' historical exercise and forfeiture behaviors. The assumptions used in determining the grant date fair value and the expected forfeitures represent management's best estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 3 to our consolidated financial statements to see how recent accounting pronouncements have affected or may affect our financial position, results of operations or cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

We are exposed to certain market risks as part of our ongoing business operations, including risks from changes in foreign currency exchange rates, interest rates and commodity prices that could affect our financial condition, results of operations and cash flows. We manage our exposure to these and other market risks through regular operating and financing activities and through the use of derivative financial instruments. We use derivative financial instruments solely as risk management tools and not for speculative investment purposes.

FOREIGN CURRENCY EXCHANGE RISK

We operate on a global basis and are exposed to the risk that our financial condition, results of operations and cash flows could be adversely affected by changes in foreign currency exchange rates. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and net assets denominated in Euros, Swiss Francs, Japanese Yen,

British Pounds, Canadian Dollars, Australian Dollars, Korean Won, Swedish Krona, Czech Koruna, Thai Baht, Taiwan Dollars, South African Rand, Russian Rubles and Indian Rupees. We manage the foreign currency exposure centrally, on a combined basis, which allows us to net exposures and to take advantage of any natural offsets. To reduce the uncertainty of foreign currency exchange rate movements on transactions denominated in foreign currencies, we enter into derivative financial instruments in the form of foreign currency exchange forward contracts and options with major financial institutions. These forward contracts and options are designed to hedge anticipated foreign currency transactions, primarily intercompany sale and purchase transactions, for periods consistent with commitments. Realized and unrealized gains and losses on these contracts and options that qualify as cash flow hedges are temporarily recorded in other comprehensive income, then recognized in cost of products sold when the hedged item affects net earnings.

For contracts outstanding at December 31, 2015, we had obligations to purchase U.S. Dollars and sell Euros, Japanese Yen, British Pounds, Canadian Dollars, Australian Dollars, Korean Won, Swedish Krona, Czech Koruna, Thai Baht, Taiwan Dollars, South African Rand, Russian Rubles and Indian Rupees and purchase Swiss Francs and sell U.S. Dollars at set maturity dates ranging from January 2016 through June 2018. The notional amounts of outstanding forward contracts entered into with third parties to purchase U.S. Dollars at December 31, 2015 were $1,427.5 million. The notional amounts of outstanding forward contracts entered into with third parties to purchase Swiss Francs at December 31, 2015 were $307.2 million. The weighted average contract rates outstanding at December 31, 2015 were Euro:USD 1.21, USD:Swiss Franc: 0.91, USD:Japanese Yen 112.44, British Pound:USD 1.59, USD:Canadian Dollar 1.22, Australian Dollar:USD 0.77, USD:Korean Won 1,125, USD:Swedish Krona 7.68, USD:Czech Koruna 22.88, USD:Thai Baht 35.03, USD:Taiwan Dollar 31.48, USD:South African Rand 13.60, USD:Russian Ruble 65.50 and USD:Indian Ruppee 68.80.

We maintain written policies and procedures governing our risk management activities. Our policy requires that critical terms of hedging instruments be the same as hedged forecasted transactions. On this basis, with respect to cash flow hedges, changes in cash flows attributable to hedged transactions are generally expected to be completely offset by changes in the fair value of hedge instruments. As part of our risk management program, we also perform sensitivity analyses to assess potential changes in revenue, operating results, cash flows and financial position relating to hypothetical movements in currency exchange rates. A sensitivity analysis of changes in the fair value of foreign currency exchange forward contracts outstanding at December 31, 2015 indicated that, if the U.S. Dollar uniformly changed in value by 10 percent relative to the various currencies, with no change in the interest differentials, the fair value of those contracts would increase or decrease earnings before income taxes in periods through June 2018, depending on the direction of the change, by the following average approximate amounts (in millions):

Currency	Average Amount
Euro	$55.5
Swiss Franc	31.7
Japanese Yen	34.6
British Pound	9.2
Canadian Dollar	11.0
Australian Dollar	15.7
Korean Won	3.4
Swedish Krona	2.5
Czech Koruna	0.6
Thai Baht	0.8
Taiwan Dollars	3.4
South African Rand	0.6
Russian Rubles	0.8
Indian Rupees	1.7

Any change in the fair value of foreign currency exchange forward contracts as a result of a fluctuation in a currency exchange rate is expected to be largely offset by a change in the value of the hedged transaction. Consequently, foreign currency exchange contracts would not subject us to material risk due to exchange rate movements because gains and losses on these contracts offset gains and losses on the assets, liabilities and transactions being hedged.

We had net assets, excluding goodwill and intangible assets, in legal entities with non-U.S. Dollar functional currencies of $2,042.4 million at December 31, 2015, primarily in Euros, Japanese Yen and Australian Dollars.

We enter into foreign currency forward exchange contracts with terms of one month to manage currency exposures for monetary assets and liabilities denominated in a currency other than an entity's functional currency. As a result, foreign currency remeasurement gains/losses recognized in earnings are generally offset with gains/losses on the foreign currency forward exchange contracts in the same reporting period.

COMMODITY PRICE RISK

We purchase raw material commodities such as cobalt chrome, titanium, tantalum, polymer and sterile packaging. We enter into supply contracts generally with terms of 12 to 24 months, where available, on these commodities to alleviate the effect of market fluctuation in prices. As part of our risk management program, we perform sensitivity analyses related to potential commodity price changes. A 10 percent price change across all these commodities would not have a material effect on our consolidated financial position, results of operations or cash flows.

INTEREST RATE RISK

In the normal course of business, we are exposed to market risk from changes in interest rates that could affect our results of operations and financial condition. We manage our exposure to interest rate risks through our regular operations and financing activities.

We invest our cash and cash equivalents primarily in highly-rated corporate commercial paper and bank deposits. We also have short-term and long-term investments in highly-rated corporate debt securities, U.S. government and agency debt securities, U.S. government treasury funds, municipal bonds, foreign government debt securities, commercial paper and certificates of deposit. The primary investment objective is to ensure capital preservation of our invested principal funds. Currently, we do not use derivative financial instruments in our investment portfolio.

We are exposed to interest rate risk on our debt obligations and our cash and cash equivalents.

We have multiple fixed-to-variable interest rate swap agreements that we have designated as fair value hedges of the fixed interest rate obligations on our senior notes due 2019 and 2021. The total notional amounts are $250.0 million and $300.0 million for the senior notes due 2019 and 2021, respectively. On the interest rate swap agreements for the senior notes due 2019, we receive a fixed interest rate of 4.625 percent and pay variable interest equal to the three-month LIBOR plus an average of 133 basis points. On the interest rate swap agreements for the senior notes due 2021, we receive a fixed interest rate of 3.375 percent and pay variable interest equal to the three-month LIBOR plus an average of 99 basis points.

The interest rate swap agreements are intended to manage our exposure to interest rate movements by converting fixed-rate debt into variable-rate debt. The objective of the instruments is to more closely align interest expense with interest income received on cash and cash equivalents.

These derivative instruments are designated as fair value hedges under GAAP. Changes in the fair value of the derivative instrument are recorded in earnings and are offset by gains or losses on the underlying debt instrument.

Based upon our overall interest rate exposure as of December 31, 2015, a change of 10 percent in interest rates, assuming the principal amount outstanding remains constant, would not have a material effect on net interest expense. This analysis does not consider the effect of the change in the level of overall economic activity that could exist in such an environment.

CREDIT RISK

Financial instruments, which potentially subject us to concentrations of credit risk, are primarily cash and cash equivalents, short-term and long-term investments, derivative instruments, counterparty transactions and accounts receivable.

We place our investments in highly-rated financial institutions or highly-rated debt securities and limit the amount of credit exposure to any one entity. We believe we do not have any significant credit risk on our cash and cash equivalents and investments.

We are exposed to credit loss if the financial institutions or counterparties issuing the debt security fail to perform. However, this loss is limited to the amounts, if any, by which the obligations of the counterparty to the financial instrument contract exceed our obligation. We also minimize exposure to credit risk by dealing with a diversified group of major financial institutions. We manage credit risk by monitoring the financial condition of our counterparties using standard credit guidelines. We do not anticipate any nonperformance by any of the counterparties.

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

Our ability to collect accounts receivable in some countries depends in part upon the financial stability of these hospital and healthcare sectors and the respective countries' national economic and healthcare systems. Most notably, in Europe healthcare is typically sponsored by the government. Since we sell products to public hospitals in those countries, we are indirectly exposed to government budget constraints. The ongoing financial uncertainties in the Euro zone impact the indirect credit exposure we have to those governments through their public hospitals. As of December 31, 2015, in Greece, Italy, Portugal and Spain, countries that have been widely recognized as presenting the highest risk, our gross short-term and long-term trade accounts receivable combined were $238.6 million. With allowances for doubtful accounts of $17.3 million recorded in those countries, the net balance was $221.3 million, representing 16 percent of our total consolidated short-term and long-term trade accounts receivable balance, net. Italy and Spain accounted for $194.2 million of that net amount. We are actively monitoring the situations in these countries. We maintain contact with customers in these countries on a regular basis. We continue to receive payments, albeit at a slower rate than in the past. We believe our allowance for doubtful accounts is adequate in these countries, as ultimately we believe the governments in these countries will be able to pay. To the extent the respective governments' ability to fund their public hospital programs deteriorates, we may have to record significant bad debt expenses in the future.

While we are exposed to risks from the broader healthcare industry in Europe and around the world, there is no significant net exposure due to any individual customer. Exposure to credit risk is controlled through credit approvals, credit limits and monitoring procedures, and we believe that reserves for losses are adequate.

Management's Report on Internal Control Over Financial Reporting

The management of Zimmer Biomet Holdings, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, the Company's internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company acquired Biomet during the second quarter of 2015 in a purchase business combination. Management excluded Biomet from its evaluation of internal control over financial reporting as of December 31, 2015. The Company will incorporate Biomet into its annual report on internal control over financial reporting as of December 31, 2016. Biomet's assets as of December 31, 2015 excluded from management's assessment were $2,631.0 million, or 10 percent of our total assets. Biomet's net sales for the year ended December 31, 2015 excluded from management's assessment were $1,602.0 million, or 27 percent of our total net sales.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*.

Based on that assessment, management has concluded that, as of December 31, 2015, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2015, as stated in its report which appears in Item 8 of this Annual Report on Form 10-K.

Item 8. Financial Statements and Supplementary Data

Zimmer Biomet Holdings, Inc.
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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Zimmer Biomet Holdings, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Zimmer Biomet Holdings, Inc. and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 7. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 3 to the consolidated financial statements, the Company changed the manner in which it classifies deferred income taxes in 2015.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Biomet, Inc. from its assessment of internal control over financial reporting as of December 31, 2015 because it was acquired by the Company in a purchase business combination during 2015. We have also excluded Biomet, Inc. from our audit of internal control over financial reporting. Biomet, Inc. is a wholly-owned subsidiary whose total assets and total revenues represent $2,631.0 million or 10% of total assets and $1,602.0 million or 27% of total net sales, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2015.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
February 29, 2016

CONSOLIDATED STATEMENTS OF EARNINGS

(in millions, except per share amounts)

For the Years Ended December 31,	2015	2014	2013
Net Sales	$5,997.8	$4,673.3	$4,623.4
Cost of products sold, excluding intangible asset amortization	1,800.6	1,242.8	1,266.7
Intangible asset amortization	337.4	92.5	78.5
Research and development	268.8	187.4	203.0
Selling, general and administrative	2,284.2	1,750.7	1,749.3
Certain claims (Note 20)	7.7	21.5	47.0
Special items (Note 3)	831.8	341.1	210.3
Operating expenses	5,530.5	3,636.0	3,554.8
Operating Profit	467.3	1,037.3	1,068.6
Other expense, net	(36.9)	(46.7)	(6.0)
Interest income	9.4	11.9	15.6
Interest expense	(286.6)	(63.1)	(70.1)
Earnings before income taxes	153.2	939.4	1,008.1
Provision for income taxes	7.0	220.2	229.5
Net earnings	146.2	719.2	778.6
Less: Net loss attributable to noncontrolling interest	(0.8)	(1.1)	(1.8)
Net Earnings of Zimmer Biomet Holdings, Inc.	$ 147.0	$ 720.3	$ 780.4
Earnings Per Common Share – Basic	$ 0.78	$ 4.26	$ 4.60
Earnings Per Common Share – Diluted	$ 0.77	$ 4.20	$ 4.54
Weighted Average Common Shares Outstanding			
Basic	187.4	169.0	169.6
Diluted	189.8	171.7	171.8
Cash Dividends Declared Per Common Share	$ 0.88	$ 0.88	$ 0.80

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(in millions)

For the Years Ended December 31,	2015	2014	2013
Net Earnings	$ 146.2	$ 719.2	$778.6
Other Comprehensive Income (Loss):			
Foreign currency cumulative translation adjustments	(305.2)	(223.1)	(35.0)
Unrealized cash flow hedge gains, net of tax	52.7	55.9	33.4
Reclassification adjustments on cash flow hedges, net of tax	(93.0)	(18.9)	(4.4)
Unrealized (losses)/gains on securities, net of tax	(0.2)	(0.5)	0.1
Reclassification adjustments on securities, net of tax	–	(0.4)	–
Adjustments to prior service cost and unrecognized actuarial assumptions, net of tax	(21.4)	(75.8)	38.5
Total Other Comprehensive (Loss) Income	(367.1)	(262.8)	32.6
Comprehensive (Loss) Income	(220.9)	456.4	811.2
Comprehensive Loss Attributable to Noncontrolling Interest	(0.3)	(1.0)	(2.0)
Comprehensive (Loss) Income Attributable to Zimmer Biomet Holdings, Inc.	$(220.6)	$ 457.4	$813.2

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

CONSOLIDATED BALANCE SHEETS

(in millions)

As of December 31,	2015	2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,459.3	$ 1,083.3
Short-term investments	164.6	612.5
Accounts receivable, less allowance for doubtful accounts	1,446.5	912.1
Inventories	2,254.1	1,193.3
Prepaid expenses and other current assets	538.4	317.2
Deferred income taxes	–	194.9
Total Current Assets	5,862.9	4,313.3
Property, plant and equipment, net	2,062.6	1,285.3
Goodwill	9,934.2	2,514.2
Intangible assets, net	8,746.3	603.5
Other assets	613.5	941.7
Total Assets	$27,219.5	$ 9,658.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 284.8	$ 145.2
Income taxes	147.2	80.3
Other current liabilities	1,185.9	798.5
Total Current Liabilities	1,617.9	1,024.0
Deferred income taxes	3,150.2	45.9
Other long-term liabilities	1,005.7	610.9
Long-term debt	11,556.3	1,425.5
Total Liabilities	17,330.1	3,106.3
Commitments and Contingencies (Note 20)		
Stockholders' Equity:		
Common stock, $0.01 par value, one billion shares authorized, 302.7 million (268.4 million in 2014) issued	3.0	2.7
Paid-in capital	8,195.3	4,330.7
Retained earnings	8,347.7	8,362.1
Accumulated other comprehensive (loss) income	(329.0)	38.1
Treasury stock, 100.0 million shares (98.7 million shares in 2014)	(6,329.1)	(6,183.7)
Total Zimmer Biomet Holdings, Inc. stockholders' equity	9,887.9	6,549.9
Noncontrolling interest	1.5	1.8
Total Stockholders' Equity	9,889.4	6,551.7
Total Liabilities and Stockholders' Equity	$27,219.5	$ 9,658.0

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in millions)

	Zimmer Biomet Holdings, Inc. Stockholders								
	Common Shares				Accumulated Other Comprehensive (Loss) Income	Treasury Shares		Noncontrolling Interest	Total Stockholders' Equity
	Number	Amount	Paid-in Capital	Retained Earnings		Number	Amount		
Balance January 1, 2013	257.1	$ 2.6	$ 3,500.6	$ 7,143.2	$ 268.3	(85.5)	$ (5,072.1)	$ 5.4	$ 5,848.0
Net earnings	–	–	–	780.4	–	–	–	(1.8)	778.6
Other comprehensive income	–	–	–	–	32.6	–	–	(0.2)	32.4
Purchase of additional shares from noncontrolling interest	–	–	(1.1)	–	–	–	–	(0.6)	(1.7)
Cash dividends declared	–	–	–	(135.4)	–	–	–	–	(135.4)
Stock compensation plans, including tax benefits	7.2	–	501.1	1.2	–	0.1	5.4	–	507.7
Share repurchases	–	–	–	–	–	(9.1)	(719.0)	–	(719.0)
Balance December 31, 2013	264.3	2.6	4,000.6	7,789.4	300.9	(94.5)	(5,785.7)	2.8	6,310.6
Net earnings	–	–	–	720.3	–	–	–	(1.1)	719.2
Other comprehensive loss	–	–	–	–	(262.8)	–	–	0.1	(262.7)
Cash dividends declared	–	–	–	(148.6)	–	–	–	–	(148.6)
Stock compensation plans, including tax benefits	4.1	0.1	330.1	1.0	–	–	2.5	–	333.7
Share repurchases	–	–	–	–	–	(4.2)	(400.5)	–	(400.5)
Balance December 31, 2014	268.4	2.7	4,330.7	8,362.1	38.1	(98.7)	(6,183.7)	1.8	6,551.7
Net earnings	–	–	–	147.0	–	–	–	(0.8)	146.2
Other comprehensive loss	–	–	–	–	(367.1)	–	–	0.5	(366.6)
Cash dividends declared	–	–	–	(164.4)	–	–	–	–	(164.4)
Stock compensation plans, including tax benefits	1.6	–	142.2	3.0	–	0.1	4.6	–	149.8
Share repurchases	–	–	–	–	–	(1.4)	(150.0)	–	(150.0)
Biomet merger consideration	32.7	0.3	3,722.4	–	–	–	–	–	3,722.7
Balance December 31, 2015	302.7	$ 3.0	$ 8,195.3	$ 8,347.7	$ (329.0)	(100.0)	$ (6,329.1)	$ 1.5	$ 9,889.4

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

For the Years Ended December 31,	2015	2014	2013
Cash flows provided by (used in) operating activities:			
Net earnings	$ 146.2	$ 719.2	$ 778.6
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	712.4	375.8	358.5
Biomet merger consideration compensation expense	90.4	–	–
Share-based compensation	46.4	49.4	48.5
Income tax benefit from stock option exercises	81.4	37.2	38.4
Excess income tax benefit from stock option exercises	(11.8)	(11.1)	(8.6)
Inventory step-up	317.8	5.4	8.0
Gain on divestiture of assets	(19.0)	–	–
Deferred income tax provision	(164.0)	(90.5)	(126.2)
Changes in operating assets and liabilities, net of acquired assets and liabilities			
Income taxes	163.3	(50.4)	104.4
Receivables	(56.1)	(40.4)	(74.3)
Inventories	(205.4)	(164.6)	(148.1)
Accounts payable and accrued liabilities	(263.1)	108.4	33.6
Other assets and liabilities	(21.8)	114.4	(49.7)
Net cash provided by operating activities	816.7	1,052.8	963.1
Cash flows provided by (used in) investing activities:			
Additions to instruments	(266.4)	(197.4)	(192.9)
Additions to other property, plant and equipment	(167.7)	(144.9)	(100.0)
Purchases of investments	(214.8)	(1,350.9)	(732.7)
Sales of investments	802.9	1,282.2	830.8
Proceeds from divestiture of assets	69.9	–	–
Biomet acquistion, net of acquired cash	(7,760.1)	–	–
Business combination investments	–	(54.3)	(74.2)
Investments in other assets	(21.7)	(4.1)	(13.5)
Net cash used in investing activities	(7,557.9)	(469.4)	(282.5)
Cash flows provided by (used in) financing activities:			
Proceeds from (payments on) senior notes	7,628.2	(250.0)	–
Proceeds from term loan	3,000.0	–	–
Redemption of senior notes	(2,740.0)	–	–
Payments on term loan	(500.0)	–	–
Net proceeds (payments) under revolving credit facilities	0.1	2.3	(97.5)
Dividends paid to stockholders	(157.1)	(145.5)	(132.4)
Proceeds from employee stock compensation plans	105.2	284.7	474.8
Excess income tax benefit from stock option exercises	11.8	11.1	8.6
Debt issuance costs	(58.4)	(64.1)	–
Repurchase of common stock	(150.0)	(400.9)	(720.8)
Net cash provided by (used in) financing activities	7,139.8	(562.4)	(467.3)
Effect of exchange rates on cash and cash equivalents	(22.6)	(18.3)	(17.0)
Increase in cash and cash equivalents	376.0	2.7	196.3
Cash and cash equivalents, beginning of year	1,083.3	1,080.6	884.3
Cash and cash equivalents, end of period	$ 1,459.3	$ 1,083.3	$1,080.6

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business

We design, manufacture and market orthopaedic reconstructive products; sports medicine, biologics, extremities and trauma products; spine, bone healing, craniomaxillofacial and thoracic products; dental implants; and related surgical products. We collaborate with healthcare professionals around the globe to advance the pace of innovation. Our products and solutions help treat patients suffering from disorders of, or injuries to, bones, joints or supporting soft tissues.

On June 24, 2015 (the "Closing Date"), pursuant to an agreement and plan of merger dated April 24, 2014, we acquired LVB Acquisition, Inc. ("LVB"), the parent company of Biomet, Inc. ("Biomet"), and LVB and Biomet became our wholly-owned subsidiaries (sometimes hereinafter referred to as the "Biomet merger" or the "merger"). For more information on the merger, see Note 4. In connection with the merger, we changed our name from Zimmer Holdings, Inc. to Zimmer Biomet Holdings, Inc.

The words "Zimmer Biomet," "we," "us," "our," "the Company" and similar words refer to Zimmer Biomet Holdings, Inc. and its subsidiaries. "Zimmer Biomet Holdings" refers to the parent company only. "Zimmer" used alone refers to the business or information of us and our subsidiaries on a stand-alone basis without inclusion of the business or information of LVB or any of its subsidiaries.

2. Revision of Prior Period Financial Statements

In the three month period ended September 30, 2015, we discovered two errors related to our financial statements for prior periods. One error related to accounts payable accruals. For certain received goods and services, we did not completely relieve the related accrual in a timely manner. As a result, our accounts payable balance was overstated. This error had been accumulating since 2012. The second error related to the accounting for the divestiture of certain Biomet product lines and rights in the three month period ended June 30, 2015. We calculated a gain on the divestiture based upon the pre-merger net book value of the assets. However, the gain should have been calculated based upon the fair value of such assets post-merger. We evaluated the impact of these errors on our prior period quarterly and annual financial statements, assessing materiality both quantitatively and qualitatively, and concluded the errors were not material to any of our previously issued financial statements. However, we concluded the cumulative corrections of these errors would be material to our financial statements for the three month period ended September 30, 2015 and, therefore, it was not appropriate to recognize the cumulative corrections in that period. Consequently, we revised previous periods' financial statements to correct these errors as well as other unrelated, immaterial out of period adjustments that had been previously recorded. Following is a summary of the financial statement line items impacted by these revisions for the periods presented in this Form 10-K (in millions, except per share amounts).

Revisions to the Consolidated Statements of Earnings and Comprehensive Income (Loss)

	Year Ended December 31, 2014			Year Ended December 31, 2013		
	As Reported	Adjustments	As Revised	As Reported	Adjustments	As Revised
Cost of products sold, excluding intangible asset amortization	$ 1,242.7	$ 0.1	$1,242.8	$ 1,280.1	$ (13.4)	$1,266.7
Research and development	187.9	(0.5)	187.4	203.4	(0.4)	203.0
Selling, general and administrative	1,744.4	6.3	1,750.7	1,758.8	(9.5)	1,749.3
Special items	342.5	(1.4)	341.1	214.0	(3.7)	210.3
Operating expenses	3,631.5	4.5	3,636.0	3,581.8	(27.0)	3,554.8
Earnings before income taxes	943.9	(4.5)	939.4	981.1	27.0	1,008.1
Provision for income taxes	224.9	(4.7)	220.2	221.9	7.6	229.5
Net earnings	719.0	0.2	719.2	759.2	19.4	778.6
Net Earnings of Zimmer Holdings, Inc.	$ 720.1	$ 0.2	$ 720.3	$ 761.0	$ 19.4	$ 780.4
Earnings Per Common Share - Basic	$ 4.26	$ –	$ 4.26	$ 4.49	$ 0.11	$ 4.60
Earnings Per Common Share - Diluted	$ 4.19	$ 0.01	$ 4.20	$ 4.43	$ 0.11	$ 4.54
Foreign currency cumulative translation adjustments	$ (241.5)	$ 18.4	$ (223.1)	$ (44.4)	$ 9.4	$ (35.0)
Total Other Comprehensive Income (Loss)	(281.2)	18.4	(262.8)	23.2	9.4	32.6
Comprehensive Income	437.8	18.6	456.4	782.4	28.8	811.2
Comprehensive Income Attributable to Zimmer Holdings, Inc.	438.8	18.6	457.4	784.4	28.8	813.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Revisions to the Consolidated Balance Sheet

	December 31, 2014		
	As Reported	Adjustments	As Revised
Inventories	$ 1,169.0	$ 24.3	$ 1,193.3
Total Current Assets	4,289.0	24.3	4,313.3
Property, plant and equipment, net	1,288.8	(3.5)	1,285.3
Other assets	939.2	2.5	941.7
Total Assets	9,634.7	23.3	9,658.0
Accounts payable	167.1	(21.9)	145.2
Income taxes payable	72.4	7.9	80.3
Other current liabilities	798.5	–	798.5
Total Current Liabilities	1,038.0	(14.0)	1,024.0
Long-term income tax payable	181.7	8.2	189.9
Total Liabilities	3,112.1	(5.8)	3,106.3
Retained earnings	8,285.2	76.9	8,362.1
Accumulated other comprehensive income	85.9	(47.8)	38.1
Total Zimmer Holdings, Inc. stockholders' equity	6,520.8	29.1	6,549.9
Total Stockholders' Equity	6,522.6	29.1	6,551.7
Total Liabilities and Stockholders' Equity	9,634.7	23.3	9,658.0

Revisions to the Consolidated Statements of Cash Flows

	Year ended December 31, 2014			Year ended December 31, 2013		
	As Reported	Adjustments	As Revised	As Reported	Adjustments	As Revised
Net earnings	$ 719.0	$ 0.2	$ 719.2	$ 759.2	$ 19.4	$ 778.6
Deferred income tax provision	(84.2)	(6.3)	(90.5)	(126.2)	–	(126.2)
Changes in operating assets and liabilities, net of effect of acquisitions:						
Income taxes payable	(51.9)	1.5	(50.4)	96.8	7.6	104.4
Inventories	(154.1)	(10.5)	(164.6)	(128.4)	(19.7)	(148.1)
Accounts payable and accrued expenses	120.1	(11.7)	108.4	38.3	(4.7)	33.6
Other assets and liabilities	87.6	26.8	114.4	(47.1)	(2.6)	(49.7)

We have not presented revisions to our consolidated statements of stockholders' equity. The only revisions to these statements are related to retained earnings caused by revisions to net earnings and accumulated other comprehensive income caused by revisions to other comprehensive income (loss). These revisions have already been presented in the tables for the consolidated statements of earnings and comprehensive income and the consolidated balance sheets.

In the fourth quarter of 2015 we discovered an error that was immaterial to previous quarters' condensed consolidated statements of cash flows. As further discussed in Note 4, we recognized $90.4 million of compensation expense related to previously unvested LVB stock options and LVB stock-based awards that vested immediately prior to the merger under the terms of the merger agreement. $52.8 million of the $90.4 million represented cash payments to holders of these options and stock-based awards. In the six month period ended June 30, 2015 and nine month period ended September 30, 2015, we presented the $52.8 million as a cash outflow from investing activities. However, since the payment represented compensation expense, the $52.8 million should have been presented as an operating cash outflow. We have corrected this error in the consolidated statement of cash flows for the year ended December 31, 2015. We will also revise future interim filings to correct for this error.

3. Significant Accounting Policies

Basis of Presentation – The consolidated financial statements include the accounts of Zimmer Biomet Holdings and its subsidiaries in which it holds a controlling financial interest. All significant intercompany accounts and transactions are eliminated. Certain amounts in the 2014 and 2013 consolidated financial statements have been reclassified to conform to the 2015 presentation.

Use of Estimates – The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the U.S. which require us to make

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation – The financial statements of our foreign subsidiaries are translated into U.S. Dollars using period-end exchange rates for assets and liabilities and average exchange rates for operating results. Unrealized translation gains and losses are included in accumulated other comprehensive income in stockholders' equity. When a transaction is denominated in a currency other than the subsidiary's functional currency, we recognize a transaction gain or loss when the transaction is settled. Foreign currency transaction gains and losses included in net earnings for the years ended December 31, 2015, 2014 and 2013 were not significant.

Revenue Recognition – We sell product through three principal channels: 1) direct to healthcare institutions, referred to as direct channel accounts; 2) through stocking distributors and healthcare dealers; and 3) directly to dental practices and dental laboratories. The direct channel accounts represented approximately 80 percent of our net sales in 2015. Through this channel, inventory is generally consigned to sales agents or customers so that products are available when needed for surgical procedures. No revenue is recognized upon the placement of inventory into consignment as we retain title and maintain the inventory on our balance sheet. Upon implantation, we issue an invoice and revenue is recognized. Pricing for products is generally predetermined by contracts with customers, agents acting on behalf of customer groups or by government regulatory bodies, depending on the market. Price discounts under group purchasing contracts are generally linked to volume of implant purchases by customer healthcare institutions within a specified group. At negotiated thresholds within a contract buying period, price discounts may increase.

Sales to stocking distributors, healthcare dealers, dental practices and dental laboratories accounted for approximately 20 percent of our net sales in 2015. With these types of sales, revenue is recognized when title to product passes, either upon shipment of the product or in some cases upon implantation of the product. Product is generally sold at contractually fixed prices for specified periods. Payment terms vary by customer, but are typically less than 90 days.

If sales incentives are earned by a customer for purchasing a specified amount of our product, we estimate whether such incentives will be achieved and, if so, recognize these incentives as a reduction in revenue in the same period the underlying revenue transaction is recognized. Occasionally products are returned and, accordingly, we maintain an estimated sales return reserve that is recorded as a reduction in revenue. Product returns were not significant for the years ended December 31, 2015, 2014 and 2013.

Taxes collected from customers and remitted to governmental authorities are presented on a net basis and excluded from revenues.

Shipping and Handling – Amounts billed to customers for shipping and handling of products are reflected in net sales and are not significant. Expenses incurred related to shipping and handling of products are reflected in selling, general and administrative and were $214.2 million, $181.9 million and $163.6 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Research and Development – We expense all research and development ("R&D") costs as incurred except when there is alternative future use for the R&D. Research and development costs include salaries, prototypes, depreciation of equipment used in research and development, consultant fees and service fees paid to collaborative partners. Where contingent milestone payments are due to third parties under research and development arrangements, the milestone payment obligations are expensed when the milestone results are achieved.

Litigation – We record a liability for contingent losses, including future legal costs, settlements and judgments, when we consider it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

Special Items – We recognize expenses resulting directly from our business combinations, employee termination benefits, certain R&D agreements, certain contract terminations, consulting and professional fees and asset impairment or loss on disposal charges connected with global restructuring, quality and operational excellence initiatives,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

and other items as "Special items" in our consolidated statement of earnings. "Special items" included (in millions):

	For the Years Ended December 31,		
	2015	2014	2013
Biomet-related			
Merger compensation expense	$ 90.4	$ –	$ –
Retention plans	73.0	–	–
Employee termination benefits	101.0	–	–
Consulting and professional fees	167.4	61.5	–
Dedicated project personnel	62.3	0.4	–
Relocated facilities	5.6	–	–
Contract terminations	95.0	–	–
Information technology integration	5.2	–	–
Other	19.2	–	–
Other			
Employee termination benefits	1.9	0.9	14.2
Consulting and professional fees	114.8	115.2	99.1
Dedicated project personnel	31.8	50.4	34.0
Impairment/loss on disposal of assets	2.3	24.0	10.9
Certain R&D agreements	–	4.5	0.8
Relocated facilities	–	0.7	3.6
Distributor acquisitions	–	0.6	0.4
Certain litigation matters	31.2	70.0	26.9
Contract terminations	–	1.8	3.9
Information technology integration	1.8	–	–
Contingent consideration adjustments	2.4	0.6	9.0
Accelerated software amortization	1.5	6.0	6.0
Other	25.0	4.5	1.5
Special items	$831.8	$341.1	$210.3

Pursuant to the Biomet merger agreement, all outstanding LVB stock options and LVB stock-based awards vested immediately prior to the effective time of the merger, and holders of these options and awards received a portion of the aggregate merger consideration. Some of these options and awards were already vested under the terms of LVB's equity incentive plans. We accounted for the fair value of the consideration we paid in exchange for previously vested options and awards as consideration to complete the merger. As part of the merger agreement terms, all previously unvested options and awards vested immediately prior to the effective time of the merger. Under LVB's equity incentive plans, unvested options and awards would have otherwise been forfeited. We have concluded that the discretionary accelerated vesting of these unvested options and awards was for the economic benefit of the combined company, and, therefore, we classified the fair value of the merger consideration we paid to holders of such unvested options and awards of $90.4 million as compensation expense.

Pursuant to the LVB merger agreement, retention plans were established for certain Biomet employees and third-party sales agents. Retention payments were earned by employees and third-party sales agents who remained with Biomet through the Closing Date. We recognized $73.0 million of expense resulting from these retention plans.

After the Closing Date, we started to implement our integration plans to drive operational synergies. Part of these integration plans included termination of employees and certain contracts. Expenses attributable to the initial phase of these integration plans that were recognized in 2015 as part of "Special items" related to employee termination benefits and contract termination expense associated with agreements with independent agents, distributors, suppliers and lessors. Our integration plans are expected to last through 2018 and we expect to incur a total of $170.0 million for employee termination benefits and $130.0 million for contract termination expense in that time period. The following table summarizes the liabilities related to these integration plans (in millions):

	Employee Termination Benefits	Contract Terminations	Total
Balance, Closing Date	$ –	$ –	$ –
Additions	101.0	95.0	196.0
Cash payments	(54.1)	(39.0)	(93.1)
Foreign currency exchange rate changes	(0.1)	–	(0.1)
Balance, December 31, 2015	$ 46.8	$ 56.0	$102.8

Consulting and professional fees relate to third-party consulting, professional fees and contract labor related to our quality and operational excellence initiatives, third-party consulting fees related to certain information system implementations, third-party integration consulting performed in a variety of areas such as tax, compliance, logistics and human resources for our business combinations and merger with Biomet, third-party fees related to severance and termination benefits matters and legal fees related to certain litigation matters. Our quality and operational excellence initiatives are company-wide and include improvements in quality, distribution, sourcing, manufacturing and information technology, among other areas.

Dedicated project personnel expenses include the salary, benefits, travel expenses and other costs directly associated with employees who are 100 percent dedicated to our quality and operational excellence initiatives or integration of acquired businesses.

Impairment/loss on disposal of assets relates to impairment of intangible assets that were acquired in business combinations or impairment of or a loss on the disposal of other assets. This caption also includes the effect of reducing

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

the estimated useful life of certain intangible assets to zero, which resulted in the remaining net book values of those assets being amortized immediately.

Certain R&D agreements relate to agreements with upfront payments to obtain intellectual property to be used in R&D projects that have no alternative future use in other projects.

Relocated facilities expenses are the moving costs and the lease expenses incurred during the relocation period in connection with relocating certain facilities.

Over the past few years we have acquired a number of U.S. and foreign-based distributors. We have incurred various costs related to the consummation and integration of those businesses.

Certain litigation matters relate to net expenses recognized during the year for the estimated or actual settlement of certain pending litigation and similar claims, including matters where we recognized income from a settlement on more favorable terms than our previous estimate, or we reduced our estimate of a previously recorded contingent liability. These litigation matters have included royalty disputes, patent litigation matters and commercial litigation matters.

Contract termination costs relate to terminated agreements in connection with the integration of acquired companies and changes to our distribution model as part of business restructuring and operational excellence initiatives. The terminated contracts primarily relate to sales agents and distribution agreements.

Information technology integration costs are non-capitalizable costs incurred related to integrating information technology platforms of acquired companies or other significant software implementations as part of our quality and operational excellence initiatives.

Contingent consideration adjustments represent the changes in the fair value of contingent consideration obligations to be paid to the prior owners of acquired businesses.

Accelerated software amortization is the incremental amortization resulting from a reduction in the estimated life of certain software. Due to an approved plan to replace certain software, the estimated economic useful life of the existing software was decreased to represent the period of time expected to implement replacement software. As a result, the amortization from the shortened life of this software is substantially higher than the previous amortization being recognized.

Cash and Cash Equivalents – We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amounts reported in the balance sheet for cash and cash equivalents are valued at cost, which approximates their fair value.

Investments – We invest our excess cash and cash equivalents in debt securities. Our investments include corporate debt securities, U.S. government and agency debt securities, foreign government debt securities, commercial paper and certificates of deposit, and are classified and accounted for as available-for-sale. Available-for-sale debt securities are recorded at fair value on our consolidated balance sheet. Investments with a contractual maturity of less than one year are classified as short-term investments on our consolidated balance sheet, or in other non-current assets if the contractual maturity is greater than one year. Changes in fair value for available-for-sale securities are recorded, net of taxes, as a component of accumulated other comprehensive loss on our consolidated balance sheet. We review our investments for other-than-temporary impairment at each reporting period. If an unrealized loss for any investment is considered to be other-than-temporary, the loss will be recognized in the consolidated statement of earnings in the period the determination is made. See Note 8 for more information regarding our investments.

Accounts Receivable – Accounts receivable consists of trade and other miscellaneous receivables. We grant credit to customers in the normal course of business and maintain an allowance for doubtful accounts for potential credit losses. We determine the allowance for doubtful accounts by geographic market and take into consideration historical credit experience, creditworthiness of the customer and other pertinent information. We make concerted efforts to collect all accounts receivable, but sometimes we have to write-off the account against the allowance when we determine the account is uncollectible. The allowance for doubtful accounts was $34.1 million and $22.3 million as of December 31, 2015 and 2014, respectively.

Inventories – Inventories are stated at the lower of cost or market, with cost determined on a first-in first-out basis.

Property, Plant and Equipment – Property, plant and equipment is carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on estimated useful lives of ten to forty years for buildings and improvements and three to eight years for machinery and equipment. Maintenance and repairs are expensed as incurred. We review property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss would be recognized when estimated future undiscounted cash flows relating to the asset are less than its carrying amount. An impairment loss is measured as the amount by which the carrying amount of an asset exceeds its fair value.

Software Costs – We capitalize certain computer software and software development costs incurred in connection with developing or obtaining computer software for internal use when both the preliminary project stage is completed and it is probable that the software will be used as intended. Capitalized software costs generally include external direct costs of materials and services utilized in developing or obtaining computer software and compensation and related

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

benefits for employees who are directly associated with the software project. Capitalized software costs are included in property, plant and equipment on our balance sheet and amortized on a straight-line or weighted average estimated user basis when the software is ready for its intended use over the estimated useful lives of the software, which approximate three to fifteen years.

Instruments – Instruments are hand-held devices used by surgeons during total joint replacement and other surgical procedures. Instruments are recognized as long-lived assets and are included in property, plant and equipment. Undeployed instruments are carried at cost or realizable value. Instruments in the field are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on average estimated useful lives, determined principally in reference to associated product life cycles, primarily five years. We review instruments for impairment whenever events or changes in circumstances indicate that the carrying value of an instrument may not be recoverable. Depreciation of instruments is recognized as selling, general and administrative expense.

Goodwill – Goodwill is not amortized but is subject to annual impairment tests. Goodwill has been assigned to reporting units. We perform annual impairment tests by either comparing a reporting unit's estimated fair value to its carrying amount or doing a qualitative assessment of a reporting unit's fair value from the last quantitative assessment to determine if there is potential impairment. We may do a qualitative assessment when the results of the previous quantitative test indicated the reporting unit's estimated fair value was significantly in excess of the carrying value of its net assets and we do not believe there have been significant changes in the reporting unit's operations that would significantly decrease its estimated fair value or significantly increase its net assets. If a quantitative assessment is performed, the fair value of the reporting unit and the implied fair value of goodwill are determined based upon a discounted cash flow analysis and/or use of a market approach by looking at market values of comparable companies. Significant assumptions are incorporated into our discounted cash flow analyses such as estimated growth rates and risk-adjusted discount rates. We perform this test in the fourth quarter of the year or whenever events or changes in circumstances indicate that the carrying value of the reporting unit's assets may not be recoverable. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the reporting unit goodwill is less than the carrying value of the reporting unit goodwill. See Note 10 for more information regarding goodwill.

Intangible Assets – Intangible assets are initially measured at their fair value. We have determined the fair value of our intangible assets either by the fair value of the consideration exchanged for the intangible asset or the estimated after-tax discounted cash flows expected to be generated from the intangible asset. Intangible assets with an indefinite life, including certain trademarks and trade names, are not amortized. Indefinite life intangible assets are assessed annually to determine whether events and circumstances continue to support an indefinite life. Intangible assets with a finite life, including core and developed technology, certain trademarks and trade names, customer-related intangibles, intellectual property rights and patents and licenses are amortized on a straight-line basis over their estimated useful life, ranging from less than one year to 20 years. Intangible assets with a finite life are tested for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Intangible assets with an indefinite life are tested for impairment annually or whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount exceeds the estimated fair value of the asset. The amount of the impairment loss to be recorded would be determined based upon the excess of the asset's carrying value over its fair value. The fair values of indefinite lived intangible assets are determined based upon a discounted cash flow analysis using the relief from royalty method or a qualitative assessment may be performed for any changes to the asset's fair value from the last quantitative assessment. The relief from royalty method estimates the cost savings associated with owning, rather than licensing, assets. Significant assumptions are incorporated into these discounted cash flow analyses such as estimated growth rates, royalty rates and risk-adjusted discount rates. We may do a qualitative assessment when the results of the previous quantitative test indicated that the asset's fair value was significantly in excess of its carrying value.

In determining the useful lives of intangible assets, we consider the expected use of the assets and the effects of obsolescence, demand, competition, anticipated technological advances, changes in surgical techniques, market influences and other economic factors. For technology-based intangible assets, we consider the expected life cycles of products, absent unforeseen technological advances, which incorporate the corresponding technology. Trademarks and trade names that do not have a wasting characteristic (i.e., there are no legal, regulatory, contractual, competitive, economic or other factors which limit the useful life) are assigned an indefinite life. Trademarks and trade names that are related to products expected to be phased out are assigned lives consistent with the period in which the products bearing each brand are expected to be sold. For customer relationship intangible assets, we assign useful lives based upon historical levels of customer attrition. Intellectual property rights are assigned useful lives that approximate the contractual life of any related patent or the period for which we maintain exclusivity over the intellectual property.

Income Taxes – We account for income taxes under the asset and liability method, which requires the recognition of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We reduce our deferred tax assets by a valuation allowance if it is more likely than not that we will not realize some portion or all of the deferred tax assets. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes. Federal income taxes are provided on the portion of the income of foreign subsidiaries that is expected to be remitted to the U.S.

We operate on a global basis and are subject to numerous and complex tax laws and regulations. Our income tax filings are regularly under audit in multiple federal, state and foreign jurisdictions. Income tax audits may require an extended period of time to reach resolution and may result in significant income tax adjustments when interpretation of tax laws or allocation of company profits is disputed. Because income tax adjustments in certain jurisdictions can be significant, we record accruals representing management's best estimate of the probable resolution of these matters. To the extent additional information becomes available, such accruals are adjusted to reflect the revised estimated probable outcome.

Derivative Financial Instruments – We measure all derivative instruments at fair value and report them on our consolidated balance sheet as assets or liabilities. We maintain written policies and procedures that permit, under appropriate circumstances and subject to proper authorization, the use of derivative financial instruments solely for risk management purposes. The use of derivative financial instruments for trading or speculative purposes is prohibited by our policy. See Note 14 for more information regarding our derivative and hedging activities.

Other Comprehensive Income (Loss) – Other comprehensive income (loss) ("OCI") refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but are excluded from net earnings as these amounts are recorded directly as an adjustment to stockholders' equity. Our OCI is comprised of foreign currency translation adjustments, unrealized gains and losses on cash flow hedges, unrealized gains and losses on available-for-sale securities and amortization of prior service costs and unrecognized gains and losses in actuarial assumptions.

Treasury Stock – We account for repurchases of common stock under the cost method and present treasury stock as a reduction of stockholders' equity. We reissue common stock held in treasury only for limited purposes.

Noncontrolling Interest – In 2011, we made an investment in a company in which we acquired a controlling financial interest, but not 100 percent of the equity. In 2013, we purchased additional shares of the company from the minority shareholders. Further information related to the noncontrolling interests of that investment has not been provided as it is not significant to our consolidated financial statements.

Accounting Pronouncements – In May 2014, the FASB issued Accounting Standard Update ("ASU") No. 2014-09 – *Revenue from Contracts with Customers (Topic 606)*. This ASU provides a five-step model for revenue recognition that all industries will apply to recognize revenue when a customer obtains control of a good or service. The ASU will be effective for us beginning January 1, 2018. We are in the initial phases of our adoption plans and, accordingly, we are unable to estimate any effect this may have on our revenue recognition practices.

In April 2015, the FASB issued ASU 2015-03 – *Simplifying the Presentation of Debt Issuance Costs*. This ASU requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. This ASU does not affect the measurement and recognition of debt issuance costs in our statement of earnings. As of December 31, 2015, this change would result in a reclassification of $11.7 million of other current assets and $60.6 million of other assets to debt. The ASU will be effective for us beginning January 1, 2016.

In September 2015, the FASB issued ASU 2015-16 – *Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments*. This ASU eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The ASU is effective for us beginning January 1, 2017, but early adoption is permitted. We early adopted this ASU in 2015.

On November 20, 2015, the FASB issued ASU 2015-17 – *Balance Sheet Classification of Deferred Taxes*. This ASU amends existing guidance on income taxes to require the classification of all deferred tax assets and liabilities as non-current on the balance sheet. The ASU will be effective for us beginning January 1, 2017, but early adoption is permitted. Additionally, the ASU allows for both retrospective and prospective methods of transition upon adoption. We early adopted this ASU effective December 31, 2015 on a prospective basis. No prior periods were retrospectively adjusted.

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

4. Business Combinations

Biomet Merger

On the Closing Date, we completed our merger with LVB, the parent company of Biomet. We paid $12,030.3 million in cash and stock and assumed Biomet's senior notes. The fair value of the principal amount of the senior notes was $2,740.0 million, which we repaid in full prior to June 30, 2015.

The merger enhances our position in the nearly $50.0 billion musculoskeletal industry. Our product portfolio now includes Biomet's legacy product lines, including knee and hip reconstructive products; sports medicine, extremities and trauma products; spine, bone healing, craniomaxillofacial and thoracic products; dental reconstructive products; and cement, biologics and other products. Our larger scale provides for increased competitiveness in our core and emerging franchises and a stronger presence in our geographic markets. The merger positions us to increase cross-selling opportunities between our legacy product portfolios and sales force specialization. The combination of our R&D functions will allow us to allocate a greater portion of the combined R&D spending towards innovations designed to address unmet clinical needs and create new-market adjacencies. We also expect to realize operational synergies to enhance value for stockholders.

In order to consummate the merger under applicable antitrust laws and regulations in certain countries, we had to divest certain product line rights and assets. As a result, we recognized a net gain of $19.0 million in non-operating other expense, net in the year ended December 31, 2015.

We funded the cash portion of the merger consideration with available cash on hand, as well as proceeds from a $3.0 billion senior unsecured term loan and $7.65 billion in senior unsecured notes issued in March 2015. See Note 12 for further information regarding these debt instruments.

The aggregate merger consideration paid was $12,030.3 million, consisting of $8,307.6 million of cash and 32.7 million shares of our common stock valued at $3,722.7 million. The value of our common stock was based upon a stock price of $113.83 per share using the average of the high and low trading prices on the Closing Date. As discussed in Note 3, $90.4 million of the cash and common stock consideration was allocated to compensation expense due to the acceleration of the vesting of unvested LVB stock options and LVB stock-based awards in connection with the merger. Therefore, the amount of merger consideration utilized for the acquisition method of accounting was $11,939.9 million.

The merger was accounted for under the acquisition method of accounting. Accordingly, LVB's results of operations have been included in our consolidated results of operations starting on the Closing Date, and LVB's assets and liabilities were recorded at their estimated fair values in our consolidated statement of financial position as of the Closing Date, with the excess of the purchase price over the estimated fair values being allocated to goodwill. During the year ended December 31, 2015, Biomet contributed net sales of $1,602.0 million. During the year ended December 31, 2015, Biomet contributed net operating losses of $295.8 million to our consolidated results, driven by $90.4 million of merger compensation expense for unvested LVB stock options and LVB stock-based awards, $73.0 million of retention plan expense, severance expense, inventory step-up expense and intangible asset amortization.

The purchase price allocation as of December 31, 2015 is preliminary. The primary tasks to be completed related to our purchase price accounting are refinements to intangible assets for certain less significant products, finalizing tax accounts, including, but not limited to, the allocation of acquired intangible assets and goodwill on a jurisdictional basis, and finalizing the estimated fair values of contingent assets and liabilities. There may be differences between these preliminary estimates of fair value and the final acquisition accounting, which differences could be material. The final estimates of fair value are expected to be completed as soon as possible, but no later than one year from the Closing Date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

The following table summarizes our estimate of the preliminary fair values of the assets acquired and liabilities assumed at the Closing Date, including measurement period adjustments recognized from our initial purchase price allocation through December 31, 2015 (in millions):

	Closing Date (initial)	Adjustments	Closing Date (as adjusted)
Cash	$ 494.8	$ –	$ 494.8
Accounts receivable, net	544.7	(15.7)	529.0
Inventory	1,161.7	84.0	1,245.7
Other current assets	123.4	(97.0)	26.4
Property, plant and equipment	699.4	92.0	791.4
Intangible assets not subject to amortization:			
Trademarks and trade names	515.0	(36.0)	479.0
In-process research and development (IPR&D)	–	246.0	246.0
Intangible assets subject to amortization:			
Technology	3,075.3	(583.2)	2,492.1
Customer relationships	5,829.0	(873.0)	4,956.0
Trademarks and trade names	–	389.0	389.0
Other assets	29.5	211.6	241.1
Goodwill	5,270.2	2,303.7	7,573.9
Total assets acquired	17,743.0	1,721.4	19,464.4
Current liabilities	588.9	39.2	628.1
Long-term debt	2,740.0	–	2,740.0
Deferred taxes	2,489.7	1,607.8	4,097.5
Other long-term liabilities	58.2	0.7	58.9
Total liabilities assumed	5,876.8	1,647.7	7,524.5
Net assets acquired	$11,866.2	$ 73.7	$11,939.9

Adjustments to the initial preliminary fair values of the assets acquired and liabilities assumed related to a change in estimate to the fair value of merger compensation expense for unvested LVB stock options and LVB stock-based awards, refinement of the estimated fair values of inventory, property, plant and equipment and intangible assets, refinement of income and deferred tax balances and adjustments to contingent liabilities and contingent gains based upon additional evidence obtained, among other adjustments. There may be additional adjustments to these preliminary estimates of fair value which could be material.

The weighted-average amortization period selected for trademarks and trade names, technology and customer relationship intangible assets was 15 years, 15 years and 18 years, respectively.

IPR&D intangible assets represent acquired R&D projects which have not received regulatory approval. IPR&D intangible assets are capitalized and accounted for as indefinite lived intangible assets and will be subject to periodic impairment testing until the successful completion or abandonment of the associated R&D project. Upon successful completion of each R&D project, the associated indefinite lived intangible asset is then accounted for as a finite lived intangible asset and amortized on a straight-line basis over its estimated useful life. If an R&D project is abandoned, the associated indefinite lived asset is charged to expense.

The IPR&D intangible assets recognized in the Biomet merger relates to a variety of R&D projects. The fair values of the IPR&D intangible assets were determined using the income approach. Most of these projects are expected to be completed within a year or two after the Closing Date. Remaining costs to complete these projects are expected to be an insignificant amount of our total annual R&D spending.

The goodwill is generated from the operational synergies we expect to achieve from our combined operations. None of the goodwill is expected to be deductible for tax purposes.

The following sets forth unaudited pro forma financial information derived from (i) the audited financial statements of Zimmer for the years ended December 31, 2015 and 2014; and (ii) the unaudited financial statements of LVB for the period January 1, 2015 to June 23, 2015 and for the year ended December 31, 2014. The pro forma financial information has been adjusted to give effect to the merger as if it had occurred on January 1, 2014.

Pro Forma Financial Information
(Unaudited)

Year Ended December 31,	2015	2014
		(in millions)
Net Sales	$7,517.7	$7,965.2
Net Earnings	$ 327.4	$ 314.5

These unaudited pro forma results have been prepared for comparative purposes only and include adjustments such as inventory step-up, amortization of acquired intangible assets and interest expense on debt incurred to finance the merger. Material, nonrecurring pro forma adjustments directly attributable to the Biomet merger include:

- The $90.4 million of merger compensation expense for unvested LVB stock options and LVB stock-based awards was removed from net earnings for the year ended December 31, 2015 and recognized as an expense in the year ended December 31, 2014.
- The $73.0 million of retention plan expense was removed from net earnings for the year ended December 31, 2015 and recognized as an expense in the year ended December 31, 2014.
- Transaction costs of $17.7 million was removed from net earnings for the year ended December 31, 2015 and recognized as an expense in the year ended December 31, 2014.

Other Acquisitions

We made a number of business acquisitions during the years 2014 and 2013. In October 2014, we acquired ETEX Holdings, Inc. (“Etex”). The Etex acquisition enhanced our biologics portfolio through the addition of Etex’s bone void filler products. In May 2013, we acquired the business assets of Knee Creations, LLC (“Knee Creations”). The Knee Creations acquisition enhanced our product portfolio of joint preservation solutions. In June 2013, we acquired NORMED Medizin-Technik GmbH (“Normed”). The Normed acquisition strengthened our Extremities and Trauma product portfolios and brought new product development capabilities in the foot and ankle and hand and wrist markets.

The results of operations of these acquired companies have been included in our consolidated results of operations subsequent to the transaction dates, and the respective assets and liabilities of the acquired companies have been recorded at their estimated fair values in our consolidated statement of financial position as of the transaction dates, with any excess purchase price being recorded as goodwill. Pro forma financial information and other information required by GAAP have not been included for these acquisitions as they, individually and in the aggregate, did not have a material impact upon our financial position or results of operations.

5. Share-Based Compensation

Our share-based payments primarily consist of stock options and restricted stock units (“RSUs”). Share-based compensation expense was as follows (in millions):

For the Years Ended December 31,	2015	2014	2013
Total expense, pre-tax	$ 46.4	$ 49.4	$ 48.5
Tax benefit related to awards	(14.5)	(15.5)	(15.6)
Total expense, net of tax	$ 31.9	$ 33.9	$ 32.9

Stock Options

We had two equity compensation plans in effect at December 31, 2015: the 2009 Stock Incentive Plan (“2009 Plan”) and the Stock Plan for Non-Employee Directors. The 2009 Plan succeeded the 2006 Stock Incentive Plan (“2006 Plan”) and the TeamShare Stock Option Plan (“TeamShare Plan”). No further awards have been granted under the 2006 Plan or under the TeamShare Plan since May 2009, and shares remaining available for grant under those plans have been merged into the 2009 Plan. Vested stock options previously granted under the 2006 Plan, the TeamShare Plan and another prior plan, the 2001 Stock Incentive Plan, remained outstanding as of December 31, 2015. We have reserved the maximum number of shares of common stock available for award under the terms of each of these plans. We have registered 57.9 million shares of common stock under these plans. The 2009 Plan provides for the grant of nonqualified stock options and incentive stock options, long-term performance awards in the form of performance shares or units, restricted stock, RSUs and stock appreciation rights. The Compensation and Management Development Committee of the Board of Directors determines the grant date for annual grants under our equity compensation plans. The date for annual grants under the 2009 Plan to our executive officers is expected to occur in the first quarter of each year following the earnings announcements for the previous quarter and full year. In 2015, the Compensation and Management Development Committee set the Closing Date as the grant date for awards to our executive officers. The Stock Plan for Non-Employee Directors provides for awards of stock options, restricted stock and RSUs to non-employee directors. It has been our practice to issue shares of common stock upon exercise of stock options from previously unissued shares, except in limited circumstances where they are issued from treasury stock. The total number of awards which may be granted in a given year and/or over the life of the plan under each of our equity compensation plans is limited. At December 31, 2015, an aggregate of 5.6 million shares were available for future grants and awards under these plans.

Stock options granted to date under our plans vest over four years and have a maximum contractual life of 10 years. As established under our equity compensation plans, vesting may accelerate upon retirement after the first anniversary date of the award if certain criteria are met. We recognize expense related to stock options on a straight-line basis over the requisite service period, less awards expected to be forfeited using estimated forfeiture rates. Due to the accelerated retirement provisions, the requisite service period of our stock options range from one to four years. Stock options are granted with an exercise price equal to the market price of our common stock on the date of grant, except in limited circumstances where local law may dictate otherwise.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

A summary of stock option activity for the year ended December 31, 2015 is as follows (options in thousands):

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Intrinsic Value (in millions)
Outstanding at January 1, 2015	7,846	$ 71.94		
Options granted	1,717	107.10		
Options exercised	(1,404)	73.09		
Options forfeited	(185)	97.02		
Options expired	(43)	80.59		
Outstanding at December 31, 2015	7,931	$ 78.73	5.7	$ 201.1
Vested or expected to vest as of December 31, 2015	7,497	$ 77.59	5.5	$ 197.4
Exercisable at December 31, 2015	4,969	$ 68.67	3.9	$ 168.6

We use a Black-Scholes option-pricing model to determine the fair value of our stock options. Expected volatility was derived from a combination of historical volatility and implied volatility because the traded options that were actively traded around the grant date of our stock options did not have maturities of over one year. The expected term of the stock options has been derived from historical employee exercise behavior. The risk-free interest rate was determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term approximating the expected life of the options. The dividend yield was determined by using an estimated annual dividend and dividing it by the market price of our stock on the grant date.

The following table presents information regarding the weighted average fair value for stock options granted, the assumptions used to determine fair value, and the intrinsic value of options exercised in the indicated year:

For the Years Ended December 31,	2015	2014	2013
Dividend yield	0.8%	0.9%	1.1%
Volatility	22.2%	25.2%	24.5%
Risk-free interest rate	1.7%	1.8%	1.1%
Expected life (years)	5.3	5.5	6.1
Weighted average fair value of options granted	$22.30	$22.59	$16.33
Intrinsic value of options exercised (in millions)	$ 49.4	$ 99.6	$ 97.9

As of December 31, 2015, there was $40.3 million of unrecognized share-based payment expense related to nonvested stock options granted under our plans. That expense is expected to be recognized over a weighted average period of 3.0 years.

RSUs

We have awarded RSUs to certain of our employees. The terms of the awards have been two to four years. Some of the awards have only service conditions while some have performance and market conditions in addition to service conditions. The service condition-only awards vest ratably on the anniversary date of the award. The awards that have performance and market conditions vest all at once on the third anniversary date. Future service conditions may be waived if an employee retires after the first anniversary date of the award, but performance and market conditions continue to apply. Accordingly, the requisite service period used for share-based payment expense on our RSUs range from one to four years.

A summary of nonvested RSU activity for the year ended December 31, 2015 is as follows (RSUs in thousands):

	RSUs	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2015	1,475	$ 76.60
Granted	556	104.77
Vested	(347)	67.50
Forfeited	(384)	74.82
Outstanding at December 31, 2015	1,300	91.64

For the RSUs with service conditions only, the fair value of the awards was determined based upon the fair market value of our common stock on the date of grant. For the RSUs with market conditions, a Monte Carlo valuation technique was used to simulate the market conditions of the awards. The outcome of the simulation was used to determine the fair value of the awards.

We are required to estimate the number of RSUs that will vest and recognize share-based payment expense on a straight-line basis over the requisite service period. As of December 31, 2015, we estimate that approximately 795,000 outstanding RSUs will vest. If our estimate were to change in the future, the cumulative effect of the change in estimate will be recorded in that period. Based upon the number of RSUs that we expect to vest, the unrecognized share-based payment expense as of December 31, 2015 was $39.6 million and is

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

expected to be recognized over a weighted-average period of 2.4 years. The fair value of RSUs vesting during the years ended December 31, 2015, 2014 and 2013 based upon our stock price on the date of vesting was $40.6 million, $29.3 million and $32.5 million, respectively.

6. Inventories

Inventories consisted of the following (in millions):

As of December 31,	2015	2014
Finished goods	$ 1,827.9	$ 924.2
Work in progress	146.1	87.8
Raw materials	280.1	181.3
Inventories	$ 2,254.1	$ 1,193.3

Finished goods inventory as of December 31, 2015 includes $284.4 million to step-up the acquired Biomet inventory to fair value.

Amounts charged to the consolidated statement of earnings for excess and obsolete inventory in the years ended December 31, 2015, 2014 and 2013 were $118.4 million, $51.8 million and $112.0 million, respectively.

7. Property, Plant and Equipment

Property, plant and equipment consisted of the following (in millions):

As of December 31,	2015	2014
Land	$ 39.6	$ 20.4
Building and equipment	1,789.3	1,283.4
Capitalized software costs	330.1	294.7
Instruments	2,160.5	1,692.8
Construction in progress	108.4	115.8
	4,427.9	3,407.1
Accumulated depreciation	(2,365.3)	(2,121.8)
Property, plant and equipment, net	$ 2,062.6	$ 1,285.3

Depreciation expense was $375.0 million, $268.6 million and $262.6 million for the years ended December 31, 2015, 2014 and 2013, respectively.

8. Investments

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value
As of December 31, 2015				
Corporate debt securities	$ 245.7	$ 0.1	$ (0.4)	$245.4
U.S. government and agency debt securities	21.6	–	(0.1)	21.5
Commercial paper	4.2	–	–	4.2
Certificates of deposit	2.0	–	–	2.0
Total short and long-term investments	$ 273.5	$ 0.1	$ (0.5)	$273.1
As of December 31, 2014				
Corporate debt securities	$ 516.9	$ 0.1	$ (0.5)	$516.5
U.S. government and agency debt securities	194.3	–	–	194.3
Commercial paper	57.8	–	–	57.8
Certificates of deposit	100.3	–	–	100.3
Total short and long-term investments	$ 869.3	$ 0.1	$ (0.5)	$868.9

The unrealized losses on our investments in corporate debt securities were caused by increases in interest yields in the global credit markets. We believe the unrealized losses associated with these securities as of December 31, 2015 are temporary because we do not intend to sell these investments, and we do not believe we will be required to sell them before recovery of their amortized cost basis.

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

As of December 31, 2015	Amortized Cost	Fair Value
Due in one year or less	$ 164.7	$164.6
Due after one year through two years	108.8	108.5
Total	$ 273.5	$273.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

9. Fair Value Measurements of Assets and Liabilities

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

	As of December 31, 2015			
		Fair Value Measurements at Reporting Date Using:		
Description	Recorded Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale securities				
Corporate debt securities	$ 245.4	$ –	$ 245.4	$ –
U.S. government and agency debt securities	21.5	–	21.5	–
Commercial paper	4.2	–	4.2	–
Certificates of deposit	2.0	–	2.0	–
Total available-for-sale securities	273.1	–	273.1	–
Derivatives, current and long-term				
Foreign currency forward contracts	96.9	–	96.9	–
Interest rate swaps	26.8	–	26.8	–
	$ 396.8	$ –	$ 396.8	$ –
Liabilities				
Derivatives, current and long-term				
Foreign currency forward contracts	1.6	–	1.6	–
	$ 1.6	$ –	$ 1.6	$ –

	As of December 31, 2014			
		Fair Value Measurements at Reporting Date Using:		
Description	Recorded Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale securities				
Corporate debt securities	$ 516.5	$ –	$ 516.5	$ –
U.S. government and agency debt securities	194.3	–	194.3	–
Commercial paper	57.8	–	57.8	–
Certificates of deposit	100.3	–	100.3	–
Total available-for-sale securities	868.9	–	868.9	–
Derivatives, current and long-term				
Foreign currency forward contracts	125.5	–	125.5	–
Interest rate swaps	24.0	–	24.0	–
	$1,018.4	$ –	$ 1,018.4	$ –
Liabilities				
Derivatives, current and long-term				
Foreign currency forward contracts	1.7	–	1.7	–
Forward starting interest rate swaps	59.3	–	59.3	–
	$ 61.0	$ –	$ 61.0	$ –

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

10. Goodwill and Other Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill (in millions):

	Americas	EMEA	Asia Pacific	Product Category Operating Segments	Total
Balance at January 1, 2014					
Goodwill	$ 894.8	$1,271.9	$161.8	$ 655.7	$ 2,984.2
Accumulated impairment losses	–	–	–	(373.0)	(373.0)
	894.8	1,271.9	161.8	282.7	2,611.2
Acquisitions	40.6	–	–	–	40.6
Currency translation	(4.3)	(114.6)	(13.6)	(5.1)	(137.6)
Balance at December 31, 2014					
Goodwill	931.1	1,157.3	148.2	650.6	2,887.2
Accumulated impairment losses	–	–	–	(373.0)	(373.0)
	931.1	1,157.3	148.2	277.6	2,514.2
Biomet Merger	6,445.2	225.6	408.1	495.0	7,573.9
Currency translation	(48.3)	(91.9)	(7.4)	(6.3)	(153.9)
Balance at December 31, 2015					
Goodwill	7,328.0	1,291.0	548.9	1,139.3	10,307.2
Accumulated impairment losses	–	–	–	(373.0)	(373.0)
	$7,328.0	$1,291.0	$548.9	$ 766.3	$ 9,934.2

The components of identifiable intangible assets were as follows (in millions):

	Technology	Intellectual Property Rights	Trademarks and Trade Names	Customer Relationships	IPR&D	Other	Total
As of December 31, 2015:							
Intangible assets subject to amortization:							
Gross carrying amount	$ 3,161.6	$ 181.0	$ 583.3	$ 5,133.0	$ –	$101.8	$ 9,160.7
Accumulated amortization	(591.9)	(164.8)	(50.9)	(269.6)	–	(64.8)	(1,142.0)
Intangible assets not subject to amortization:							
Gross carrying amount	–	–	479.0	–	248.6	–	727.6
Total identifiable intangible assets	$ 2,569.7	$ 16.2	$ 1,011.4	$ 4,863.4	$248.6	$ 37.0	$ 8,746.3
As of December 31, 2014:							
Intangible assets subject to amortization:							
Gross carrying amount	$ 727.2	$ 173.4	$ 74.2	$ 213.8	$ –	$ 93.9	$ 1,282.5
Accumulated amortization	(458.3)	(157.7)	(34.1)	(99.6)	–	(58.3)	(808.0)
Intangible assets not subject to amortization:							
Gross carrying amount	–	–	129.0	–	–	–	129.0
Total identifiable intangible assets	$ 268.9	$ 15.7	$ 169.1	$ 114.2	$ –	$ 35.6	$ 603.5

During 2015, we reclassified $129.0 million of indefinite lived trademarks and trade names to finite lived trademarks and trade names as they were determined to have a finite useful life.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Estimated annual amortization expense based upon intangible assets recognized as of December 31, 2015 for the years ending December 31, 2016 through 2020 is (in millions):

For the Years Ending December 31,	
2016	$559.9
2017	546.2
2018	529.3
2019	516.1
2020	514.4

11. Other Current and Long-term Liabilities

Other current and long-term liabilities consisted of the following (in millions):

As of December 31,	2015	2014
Other current liabilities:		
License and service agreements	$ 144.1	$100.2
Certain claims accrual (Note 20)	50.0	50.0
Litigation settlement accrual (Note 20)	–	70.0
Forward starting interest rate swaps	–	59.3
Salaries, wages and benefits	265.9	167.7
Accrued liabilities	725.9	351.3
Total other current liabilities	$1,185.9	$798.5
Other long-term liabilities:		
Long-term income tax payable	$ 478.1	$189.9
Certain claims accrual (Note 20)	264.6	307.2
Other long-term liabilities	263.0	113.8
Total other long-term liabilities	$1,005.7	$610.9

12. Debt

Our debt consisted of the following (in millions):

As of December 31,	2015	2014
Long-term debt		
1.450% Senior Notes due 2017	$ 500.0	$ –
2.000% Senior Notes due 2018	1,150.0	–
4.625% Senior Notes due 2019	500.0	500.0
2.700% Senior Notes due 2020	1,500.0	–
3.375% Senior Notes due 2021	300.0	300.0
3.150% Senior Notes due 2022	750.0	–
3.550% Senior Notes due 2025	2,000.0	–
4.250% Senior Notes due 2035	500.0	–
5.750% Senior Notes due 2039	500.0	500.0
4.450% Senior Notes due 2045	1,250.0	–
U.S. Term Loan	2,500.0	–
Japan Term Loan	96.8	98.0
Other long-term debt	4.6	4.9
Debt discount	(21.9)	(1.4)
Adjustment related to interest rate swaps	26.8	24.0
Total long-term debt	$11,556.3	$1,425.5

At December 31, 2015, our total debt consisted of $8.95 billion aggregate principal amount of our senior notes, a $2.5 billion U.S. term loan ("U.S. Term Loan"), an 11.7 billion Japanese Yen term loan agreement ("Japan Term Loan") that will mature on May 31, 2018, and other debt, debt discount and fair value adjustments totaling $9.5 million.

The U.S. Term Loan is part of our $4.35 billion credit agreement ("Credit Agreement") that contains: (i) a 5-year unsecured term loan facility in the principal amount of $3.0 billion (the "U.S. Term Loan Facility"), and (ii) a 5-year unsecured multicurrency revolving facility in the principal amount of $1.35 billion (the "Multicurrency Revolving Facility"). The Credit Agreement contains customary affirmative and negative covenants and events of default for an unsecured financing arrangement, including, among other things, limitations on consolidations, mergers and sales of assets. Financial covenants include a consolidated indebtedness to consolidated EBITDA ratio of no greater than 5.0 to 1.0 through June 24, 2016 and no greater than 4.5 to 1.0 thereafter. If our credit rating falls below investment grade, additional restrictions would result, including restrictions on investments and payment of dividends. We were in compliance with all covenants under the Credit Agreement as of December 31, 2015.

On June 24, 2015, we borrowed $3.0 billion under the U.S. Term Loan Facility to fund a portion of the Biomet merger. Under the terms of the U.S. Term Loan Facility, starting September 30, 2015, principal payments are due as follows: $75.0 million on a quarterly basis during the first three years, $112.5 million on a quarterly basis during the fourth year, and $412.5 million on a quarterly basis during the fifth year. In 2015, we paid $500.0 million in principal under the U.S. Term Loan Facility, resulting in $2.5 billion in outstanding borrowings as of December 31, 2015. Due to the $500.0 million of advanced payments in 2015 on the U.S. Term Loan Facility, we have no quarterly principal obligations in 2016.

Borrowings under the Multicurrency Revolving Facility may be used for general corporate purposes. There were no borrowings outstanding under the Multicurrency Revolving Facility as of December 31, 2015.

Of the total $8.95 billion aggregate principal amount of senior notes outstanding at December 31, 2015, we issued $7.65 billion of this amount in March 2015 (the "Merger Notes"), the proceeds of which were used to finance a portion of the cash consideration payable in the Biomet merger, pay merger related fees and expenses and pay a portion of Biomet's funded debt. The Merger Notes consist of the following seven tranches: the 1.450% Senior Notes due 2017, the 2.000% Senior Notes due 2018, the 2.700% Senior Notes due 2020, the 3.150% Senior Notes due 2022, the 3.550% Senior Notes due 2025, the 4.250% Senior Notes due 2035 and the 4.450% Senior Notes due 2045.

We may, at our option, redeem our senior notes, in whole or in part, at any time upon payment of the principal, any applicable make-whole premium, and accrued and unpaid

interest to the date of redemption. In addition, the Merger Notes and the 3.375% Senior Notes due 2021 may be redeemed at our option without any make-whole premium at specified dates ranging from one month to six months in advance of the scheduled maturity date.

Between the Closing Date and June 30, 2015, we repaid the Biomet senior notes we assumed in the merger. The fair value of the principal amount plus interest was $2,798.6 million. These senior notes required us to pay a call premium in excess of the fair value of the notes when they were repaid. As a result, we recognized $22.0 million in non-operating other expense related to this call premium.

The estimated fair value of our senior notes as of December 31, 2015, based on quoted prices for the specific securities from transactions in over-the-counter markets (Level 2), was $8,837.5 million. The estimated fair value of the Japan Term Loan as of December 31, 2015, based upon publicly available market yield curves and the terms of the debt (Level 2), was $96.4 million. The carrying value of the U.S. Term Loan approximates fair value as it bears interest at short-term variable market rates.

We have entered into interest rate swap agreements which we designated as fair value hedges of underlying fixed-rate obligations on our senior notes due 2019 and 2021. See Note 14 for additional information regarding the interest rate swap agreements.

We also have available uncommitted credit facilities totaling $35.8 million.

At December 31, 2015 and 2014, the weighted average interest rate for our long-term borrowings was 2.9 percent and 3.5 percent, respectively. We paid $207.1 million, $67.5 million and $68.1 million in interest during 2015, 2014 and 2013, respectively.

13. Accumulated Other Comprehensive (Loss) Income

OCI refers to certain gains and losses that under GAAP are included in comprehensive income but are excluded from net earnings as these amounts are initially recorded as an adjustment to stockholders' equity. Amounts in OCI may be reclassified to net earnings upon the occurrence of certain events.

Our OCI is comprised of foreign currency translation adjustments, unrealized gains and losses on cash flow hedges, unrealized gains and losses on available-for-sale securities, and amortization of prior service costs and unrecognized gains and losses in actuarial assumptions on our defined benefit plans. Foreign currency translation adjustments are reclassified to net earnings upon sale or upon a complete or substantially complete liquidation of an investment in a foreign entity. Unrealized gains and losses on cash flow hedges are reclassified to net earnings when the hedged item affects net earnings. Unrealized gains and losses on available-for-sale securities are reclassified to net earnings if we sell the security before maturity or if the unrealized loss is considered to be other-than-temporary. Amounts related to defined benefit plans that are in OCI are reclassified over the service periods of employees in the plan. The reclassification amounts are allocated to all employees in the plans and, therefore, the reclassified amounts may become part of inventory to the extent they are considered direct labor costs. See Note 15 for more information on our defined benefit plans.

The following table shows the changes in the components of OCI, net of tax (in millions):

	Foreign Currency Translation	Cash Flow Hedges	Unrealized Gains on Securities	Defined Benefit Plan Items
Balance December 31, 2014	$ 111.8	$ 70.1	$ (0.4)	$(143.4)
OCI before reclassifications	(305.2)	52.7	(0.2)	(30.6)
Reclassifications	–	(93.0)	–	9.2
Balance December 31, 2015	$ (193.4)	$ 29.8	$ (0.6)	$(164.8)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

The following table shows the reclassification adjustments from OCI (in millions):

Component of OCI	Amount of Gain / (Loss) Reclassified from OCI For the Years Ended December 31, 2015	2014	2013	Location on Statement of Earnings
Cash flow hedges				
Foreign exchange forward contracts	$ 122.3	$ 33.3	$ 8.0	Cost of products sold
Foreign exchange options	–	–	(0.2)	Cost of products sold
Forward starting interest rate swaps	(1.3)	–	–	Interest expense
	121.0	33.3	7.8	Total before tax
	28.0	14.4	3.4	Provision for income taxes
	$ 93.0	$ 18.9	$ 4.4	Net of tax
Investments				
Realized gains on securities	$ –	$ 0.4	$ –	Interest income
	–	0.4	–	Total before tax
	–	–	–	Provision for income taxes
	$ –	$ 0.4	$ –	Net of tax
Defined benefit plans				
Prior service cost	$ 5.6	$ 3.9	$ 3.9	*
Unrecognized actuarial (loss)	(20.1)	(11.1)	(16.6)	*
	(14.5)	(7.2)	(12.7)	Total before tax
	(5.3)	(3.0)	(4.8)	Provision for income taxes
	$ (9.2)	$ (4.2)	$ (7.9)	Net of tax
Total reclassifications	$ 83.8	$ 15.1	$ (3.5)	Net of tax

* These OCI components are included in the computation of net periodic pension expense (see Note 15).

The following table shows the tax effects on each component of OCI recognized in our consolidated statements of comprehensive income (in millions):

For the Years Ended December 31,	Before Tax 2015	2014	2013	Tax 2015	2014	2013	Net of Tax 2015	2014	2013
Foreign currency cumulative translation adjustments	$ (305.2)	$ (223.1)	$ (35.0)	$ –	$ –	$ –	$ (305.2)	$ (223.1)	$ (35.0)
Unrealized cash flow hedge gains	59.1	60.5	63.6	6.4	4.6	30.2	52.7	55.9	33.4
Reclassification adjustments on foreign currency hedges	(121.0)	(33.3)	(7.8)	(28.0)	(14.4)	(3.4)	(93.0)	(18.9)	(4.4)
Reclassification adjustments on securities	–	(0.4)	–	–	–	–	–	(0.4)	–
Unrealized gains/(losses) on securities	(0.2)	(0.5)	0.1	–	–	–	(0.2)	(0.5)	0.1
Adjustments to prior service cost and unrecognized actuarial assumptions	(25.0)	(104.8)	50.3	(3.6)	(29.0)	11.8	(21.4)	(75.8)	38.5
Total Other Comprehensive (Loss) Income	$ (392.3)	$ (301.6)	$ 71.2	$ (25.2)	$ (38.8)	$ 38.6	$ (367.1)	$ (262.8)	$ 32.6

14. Derivative Instruments and Hedging Activities

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

Interest Rate Risk

Derivatives Designated as Fair Value Hedges

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

We have multiple fixed-to-variable interest rate swap agreements that we have designated as fair value hedges of the fixed interest rate obligations on our 4.625% Senior Notes due 2019 and 3.375% Senior Notes due 2021. The total notional amounts are $250.0 million and $300.0 million for the 4.625% Senior Notes due 2019 and 3.375% Senior Notes due

2021, respectively. On the interest rate swap agreements for the 4.625% Senior Notes due 2019, we receive a fixed interest rate of 4.625 percent and pay variable interest equal to the three-month LIBOR plus an average of 133 basis points. On the interest rate swap agreements for the 3.375% Senior Notes due 2021, we receive a fixed interest rate of 3.375 percent and pay variable interest equal to the three-month LIBOR plus an average of 99 basis points.

Derivatives Designated as Cash Flow Hedges

In 2014, we entered into forward starting interest rate swaps that were designated as cash flow hedges of the thirty year tranche of senior notes we expected to issue in 2015. The forward starting interest rate swaps mitigated the risk of changes in interest rates prior to the completion of the Merger Notes offering. The total notional amounts of the forward starting interest rate swaps were $1 billion and settled in March 2015 at a loss of $97.6 million. The loss will be recognized using the effective interest rate method over the maturity period of the 4.450% Senior Notes due 2045.

Foreign Currency Exchange Rate Risk

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

Derivatives Designated as Cash Flow Hedges

Our revenues are generated in various currencies throughout the world. However, a significant amount of our inventory is produced in U.S. Dollars. Therefore, movements in foreign currency exchange rates may have different proportional effects on our revenues compared to our cost of products sold. To minimize the effects of foreign currency exchange rate movements on cash flows, we hedge intercompany sales of inventory expected to occur within the next 30 months with foreign currency exchange forward contracts and options. We designate these derivative instruments as cash flow hedges.

We perform quarterly assessments of hedge effectiveness by verifying and documenting the critical terms of the hedge instrument and that forecasted transactions have not changed significantly. We also assess on a quarterly basis whether there have been adverse developments regarding the risk of a counterparty default. For derivatives which qualify as hedges of future cash flows, the effective portion of changes in fair value is temporarily recorded in other comprehensive income and then recognized in cost of products sold when the hedged item affects net earnings. The ineffective portion of a derivative's change in fair value, if any, is immediately reported in cost of products sold. On our consolidated statement of cash flows, the settlements of these cash flow hedges are recognized in operating cash flows.

For foreign currency exchange forward contracts and options outstanding at December 31, 2015, we had obligations to purchase U.S. Dollars and sell Euros, Japanese Yen, British Pounds, Canadian Dollars, Australian Dollars, Korean Won, Swedish Krona, Czech Koruna, Thai Baht, Taiwan Dollars, South African Rand, Russian Rubles and Indian Rupees and obligations to purchase Swiss Francs and sell U.S. Dollars. These derivatives mature at dates ranging from January 2016 through June 2018. As of December 31, 2015, the notional amounts of outstanding forward contracts and options entered into with third parties to purchase U.S. Dollars were $1,427.5 million. As of December 31, 2015, the notional amounts of outstanding forward contracts and options entered into with third parties to purchase Swiss Francs were $307.2 million.

Derivatives Not Designated as Hedging Instruments

We enter into foreign currency forward exchange contracts with terms of one month to manage currency exposures for monetary assets and liabilities denominated in a currency other than an entity's functional currency. As a result, any foreign currency re-measurement gains/losses recognized in earnings are generally offset with gains/losses on the foreign currency forward exchange contracts in the same reporting period. Starting in 2015, the net amount of these offsetting gains/losses is recorded in other expense. In prior periods, the net amount was recorded in cost of products sold and was not material. Prior periods have been reclassified to conform to the 2015 presentation. These contracts are settled on the last day of each reporting period. Therefore, there is no outstanding balance related to these contracts recorded on the balance sheet as of the end of the reporting period. The notional amounts of these contracts are typically in a range of $1.5 billion to $2.0 billion per quarter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Income Statement Presentation

Derivatives Designated as Fair Value Hedges

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

		Gain /(Loss) on Instrument Year Ended December 31,			Gain /(Loss) on Hedged Item Year Ended December 31,		
Derivative Instrument	Location on Statement of Earnings	2015	2014	2013	2015	2014	2013
Interest rate swaps	Interest expense	$ 2.8	$ 14.7	$ (24.6)	$ (2.8)	$ (14.7)	$ 24.6

We had no ineffective fair value hedging instruments nor any amounts excluded from the assessment of hedge effectiveness during the years ended December 31, 2015, 2014 and 2013.

Derivatives Designated as Cash Flow Hedges

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

	Amount of Gain / (Loss) Recognized in OCI Year Ended December 31,				Amount of Gain / (Loss) Reclassified from OCI Year Ended December 31,		
Derivative Instrument	2015	2014	2013	Location on Statement of Earnings	2015	2014	2013
Foreign exchange forward contracts	$ 97.4	$ 119.8	$ 63.9	Cost of products sold	$ 122.3	$ 33.3	$ 8.0
Foreign exchange options	–	–	(0.3)	Cost of products sold	–	–	(0.2)
Forward starting interest rate swaps	(38.3)	(59.3)	–	Interest expense	(1.3)	–	–
	$ 59.1	$ 60.5	$ 63.6		$ 121.0	$ 33.3	$ 7.8

The net amount recognized in earnings during the years ended December 31, 2015, 2014 and 2013 due to ineffectiveness and amounts excluded from the assessment of hedge effectiveness were not significant.

The fair value of outstanding derivative instruments designated as cash flow hedges and recorded on the balance sheet at December 31, 2015, together with settled derivatives where the hedged item has not yet affected earnings, was a net unrealized gain of $26.1 million, or $29.8 million after taxes, which is deferred in accumulated other comprehensive income. Of the net unrealized gain, $101.4 million, or $76.7 million after taxes, is expected to be reclassified to earnings in cost of products sold and a loss of $1.7 million, or $1.1 million after taxes, is expected to be reclassified to earnings in interest expense over the next twelve months.

Derivatives Not Designated as Hedging Instruments

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

	Location on	Year Ended December 31,		
Derivative Instrument	Statement of Earnings	2015	2014	2013
Foreign exchange forward contracts	Other expense, net	$ 28.8	$ 15.3	$ –

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Balance Sheet Presentation

As of December 31, 2015 and December 31, 2014, all derivative instruments designated as fair value hedges and cash flow hedges are recorded at fair value on the balance sheet. On our consolidated balance sheets, we recognize individual forward contracts and options with the same counterparty on a net asset/liability basis if we have a master netting agreement with the counterparty. Under these master netting agreements, we are able to settle derivative instrument assets and liabilities with the same counterparty in a single transaction, instead of settling each derivative instrument separately. We have master netting agreements with all of our counterparties.

The fair value of derivative instruments on a gross basis is as follows (in millions):

	As of December 31, 2015		As of December 31, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Asset Derivatives				
Foreign exchange forward contracts	Other current assets	$100.5	Other current assets	$ 98.7
Foreign exchange forward contracts	Other assets	19.8	Other assets	53.1
Interest rate swaps	Other assets	26.8	Other assets	24.0
Total asset derivatives		$147.1		$175.8
Liability Derivatives				
Foreign exchange forward contracts	Other current liabilities	$ 16.7	Other current liabilities	$ 16.4
Forward starting interest rate swaps	Other current liabilities	–	Other current liabilities	59.3
Foreign exchange forward contracts	Other long-term liabilities	8.3	Other long-term liabilities	11.6
Total liability derivatives		$ 25.0		$ 87.3

The table below presents the effects of our master netting agreements on our consolidated balance sheets (in millions):

		As of December 31, 2015			As of December 31, 2014		
Description	Location	Gross Amount	Offset	Net Amount in Balance Sheet	Gross Amount	Offset	Net Amount in Balance Sheet
Asset Derivatives							
Cash flow hedges	Other current assets	$ 100.5	$ 16.3	$ 84.2	$ 98.7	$ 15.9	$ 82.8
Cash flow hedges	Other assets	19.8	7.1	12.7	53.1	10.4	42.7
Liability Derivatives							
Cash flow hedges	Other current liabilities	16.7	16.3	0.4	16.4	15.9	0.5
Cash flow hedges	Other long-term liabilities	8.3	7.1	1.2	11.6	10.4	1.2

15. Retirement Benefit Plans

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

We use a December 31 measurement date for our benefit plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Defined Benefit Plans

The components of net pension expense for our defined benefit retirement plans were as follows (in millions):

	U.S. and Puerto Rico			Foreign		
For the Years Ended December 31,	2015	2014	2013	2015	2014	2013
Service cost	$ 11.8	$ 10.9	$ 11.9	$ 18.9	$ 14.7	$16.1
Interest cost	15.8	15.5	13.2	8.8	9.2	5.6
Expected return on plan assets	(31.8)	(30.8)	(28.7)	(13.9)	(11.0)	(6.7)
Amortization of prior service cost	(3.7)	(2.6)	(2.6)	(1.9)	(1.3)	(1.3)
Amortization of unrecognized actuarial loss	17.4	10.6	14.8	2.7	0.5	1.8
Net periodic benefit cost	$ 9.5	$ 3.6	$ 8.6	$ 14.6	$ 12.1	$15.5

The weighted average actuarial assumptions used to determine net pension expense for our defined benefit retirement plans were as follows:

	U.S. and Puerto Rico			Foreign		
For the Years Ended December 31,	2015	2014	2013	2015	2014	2013
Discount rate	4.56%	4.98%	4.32%	1.94%	2.46%	2.13%
Rate of compensation increase	3.29%	3.29%	3.29%	2.00%	1.48%	2.29%
Expected long-term rate of return on plan assets	7.75%	7.75%	7.75%	3.05%	2.88%	2.74%

The expected long-term rate of return on plan assets is based on the historical and estimated future rates of return on the different asset classes held in the plans. The expected long-term rate of return is the weighted average of the target asset allocation of each individual asset class. We believe that historical asset results approximate expected market returns applicable to the funding of a long-term benefit obligation.

Discount rates were determined for each of our defined benefit retirement plans at their measurement date to reflect the yield of a portfolio of high quality bonds matched against the timing and amounts of projected future benefit payments. Beginning in 2016, we will change the method used to estimate the service and interest costs for pension and postretirement benefits. The new method utilizes a full yield curve approach to estimate service and interest costs by applying specific spot rates along the yield curve used to determine the benefit obligation of relevant projected cash outflows. Historically, we utilized a single weighted-average discount rate applied to projected cash outflows. We made the change to provide a more precise measurement of service and interest costs by aligning the timing of the plan's liability cash flows to the corresponding spot rate on the yield curve. The change does not impact the measurement of the plan's obligations. We will account for this change as a change in accounting estimate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Changes in projected benefit obligations and plan assets were (in millions):

	U.S. and Puerto Rico		Foreign	
For the Years Ended December 31,	2015	2014	2015	2014
Projected benefit obligation – beginning of year	$ 386.6	$ 316.7	$423.7	$371.5
Obligation assumed from Biomet	–	–	159.4	–
Service cost	11.8	10.9	18.9	14.7
Interest cost	15.8	15.5	8.8	9.2
Plan amendments	(21.9)	–	–	(7.0)
Employee contributions	–	–	16.9	18.5
Benefits paid	(12.3)	(10.0)	(24.1)	(22.6)
Actuarial (gain) loss	(4.9)	53.5	(18.9)	77.9
Expenses paid	–	–	(0.3)	(0.2)
Settlement	–	–	(0.2)	–
Translation (gain) loss	–	–	(15.6)	(38.3)
Projected benefit obligation – end of year	$ 375.1	$ 386.6	$568.6	$423.7
Plan assets at fair market value – beginning of year	$ 402.2	$ 398.6	$385.4	$372.3
Assets contributed by Biomet	–	–	129.4	–
Actual return on plan assets	(16.6)	10.9	(4.0)	38.0
Employer contributions	0.8	2.7	14.8	14.7
Employee contributions	–	–	16.9	18.5
Plan amendments	–	–	(0.2)	–
Benefits paid	(12.3)	(10.0)	(24.1)	(22.6)
Expenses paid	–	–	(0.3)	(0.2)
Translation gain (loss)	–	–	(12.3)	(35.3)
Plan assets at fair market value – end of year	$ 374.1	$ 402.2	$505.6	$385.4
Funded status	$ (1.0)	$ 15.6	$ (63.0)	$ (38.3)
Amounts recognized in consolidated balance sheet:				
Prepaid pension	$ 14.6	$ 29.4	$ 16.5	$ 12.4
Short-term accrued benefit liability	(1.0)	(0.7)	(0.6)	(0.5)
Long-term accrued benefit liability	(14.6)	(13.1)	(78.9)	(50.2)
Net amount recognized	$ (1.0)	$ 15.6	$ (63.0)	$ (38.3)

We estimate the following amounts recorded as part of accumulated other comprehensive income will be recognized as part of our net pension expense during 2016 (in millions):

	U.S. and Puerto Rico	Foreign
Unrecognized prior service cost	$ (5.9)	$(1.9)
Unrecognized actuarial loss	17.1	2.9
	$ 11.2	$ 1.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

The weighted average actuarial assumptions used to determine the projected benefit obligation for our defined benefit retirement plans were as follows:

	U.S. and Puerto Rico			Foreign		
For the Years Ended December 31,	2015	2014	2013	2015	2014	2013
Discount rate	4.36%	4.10%	4.98%	1.86%	1.38%	2.45%
Rate of compensation increase	3.29%	3.29%	3.29%	2.02%	1.43%	1.52%

Plans with projected benefit obligations in excess of plan assets were as follows (in millions):

	U.S. and Puerto Rico		Foreign	
As of December 31,	2015	2014	2015	2014
Projected benefit obligation	$ 53.8	$ 54.6	$393.4	$365.2
Plan assets at fair market value	38.2	40.8	319.6	315.0

Total accumulated benefit obligations and plans with accumulated benefit obligations in excess of plan assets were as follows (in millions):

	U.S. and Puerto Rico		Foreign	
As of December 31,	2015	2014	2015	2014
Total accumulated benefit obligations	$354.6	$337.5	$556.8	$413.1
Plans with accumulated benefit obligations in excess of plan assets:				
Accumulated benefit obligation	34.8	32.8	380.1	358.6
Plan assets at fair market value	20.6	22.0	314.9	315.0

The benefits expected to be paid out in each of the next five years and for the five years combined thereafter are as follows (in millions):

For the Years Ending December 31,	U.S. and Puerto Rico	Foreign
2016	14.3	22.4
2017	15.8	22.5
2018	17.3	23.0
2019	19.1	24.0
2020	20.6	23.9
2021-2025	118.4	125.2

The U.S. and Puerto Rico defined benefit retirement plans' overall investment strategy is to maximize total returns by emphasizing long-term growth of capital while mitigating risk. We have established target ranges of assets held by the plans of 40 to 45 percent for equity securities, 30 to 35 percent for debt securities and 20 to 25 percent in non-traditional investments. The plans strive to have sufficiently diversified assets so that adverse or unexpected results from one asset class will not have an unduly detrimental impact on the entire portfolio. We regularly review the investments in the plans and we may rebalance them from time-to-time based upon the target asset allocation of the plans.

For the U.S. and Puerto Rico plans, we maintain an investment policy statement that guides the investment allocation in the plans. The investment policy statement describes the target asset allocation positions described above. Our benefits committee, along with our investment advisor, monitor compliance with and administer the investment policy statement and the plans' assets and oversee the general investment strategy and objectives of the plans. Our benefits committee generally meets quarterly to review performance and to ensure that the current investment allocation is within the parameters of the investment policy statement.

The investment strategies of foreign based plans vary according to the plan provisions and local laws. The majority of the assets in foreign based plans are located in Switzerland-based plans. These assets are held in trusts and are commingled with the assets of other Swiss companies with representatives of all the companies making the investment decisions. The overall strategy is to maximize total returns while avoiding risk. The trustees of the assets have established target ranges of assets held by the plans of 30 to 50 percent in debt securities, 20 to 37 percent in equity securities, 15 to 24 percent in real estate, 3 to 15 percent in cash funds and 0 to 12 percent in other funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

The fair value of our U.S. and Puerto Rico pension plan assets by asset category was as follows (in millions):

	As of December 31, 2015			
		Fair Value Measurements at Reporting Date Using:		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 2.5	$ 2.5	$ —	$ —
Equity securities:				
U.S. large-cap	79.2	—	79.2	—
U.S. small-cap	25.6	—	25.6	—
International	93.2	—	93.2	—
Real estate	27.0	—	27.0	—
Commodity-linked mutual funds	16.4	—	16.4	—
Intermediate fixed income securities	130.2	—	130.2	—
Total	$374.1	$ 2.5	$ 371.6	$ —

	As of December 31, 2014			
		Fair Value Measurements at Reporting Date Using:		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 1.4	$ 1.4	$ —	$ —
Equity securities:				
U.S. large-cap	83.7	—	83.7	—
U.S. small-cap	23.0	—	23.0	—
International	83.0	—	83.0	—
Real estate	49.1	—	49.1	—
Commodity-linked mutual funds	36.0	—	36.0	—
Intermediate fixed income securities	126.0	—	126.0	—
Total	$402.2	$ 1.4	$ 400.8	$ —

The fair value of our foreign pension plan assets was as follows (in millions):

	As of December 31, 2015			
		Fair Value Measurements at Reporting Date Using:		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 34.0	$ 34.0	$ —	$ —
Equity securities:				
Energy	4.7	4.7	—	—
Materials	6.7	6.7	—	—
Industrials	8.2	8.2	—	—
Consumer discretionary	6.3	6.3	—	—
Consumer staples	8.5	8.5	—	—
Healthcare	8.6	8.6	—	—
Financials	17.4	17.4	—	—
Information technology	5.7	5.7	—	—
Telecommunication services	2.0	2.0	—	—
Utilities	3.3	3.3	—	—
Other	80.7	40.6	40.1	—
Fixed income securities:				
Government bonds	104.0	—	104.0	—
Corporate bonds	74.5	—	74.5	—
Asset-backed securities	14.8	—	14.8	—
Other debt	11.3	—	11.3	—
Other types of investments:				
Mortgage loans	9.8	—	9.8	—
Insurance contracts	5.8	—	5.8	—
Other investments	14.7	—	14.7	—
Real estate	84.6	—	10.7	73.9
Total	$505.6	$ 146.0	$ 285.7	$ 73.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

	As of December 31, 2014			
		Fair Value Measurements at Reporting Date Using:		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 31.0	$ 31.0	$ —	$ —
Equity securities:				
Energy	4.7	4.7	—	—
Materials	7.1	7.1	—	—
Industrials	7.5	7.5	—	—
Consumer discretionary	6.5	6.5	—	—
Consumer staples	7.5	7.5	—	—
Healthcare	6.8	6.8	—	—
Financials	16.3	16.3	—	—
Information technology	4.9	4.9	—	—
Telecommunication services	2.0	2.0	—	—
Utilities	3.4	3.4	—	—
Other	36.7	34.5	2.2	—
Fixed income securities:				
Government bonds	72.5	—	72.5	—
Corporate bonds	58.9	—	58.9	—
Asset-backed securities	22.0	—	22.0	—
Other debt	1.7	—	1.7	—
Other types of investments:				
Mortgage loans	9.2	—	9.2	—
Insurance contracts	6.1	—	6.1	—
Other investments	12.0	—	12.0	—
Real estate	68.6	—	—	68.6
Total	$385.4	$ 132.2	$ 184.6	$ 68.6

As of December 31, 2015 and 2014, our defined benefit pension plans' assets did not hold any direct investment in Zimmer Biomet Holdings common stock.

Equity securities are valued using a market approach, based on quoted prices for the specific security from transactions in active exchange markets (Level 1), or in some cases where we are invested in mutual or collective funds, based upon the net asset value per unit of the fund which is determined from quoted market prices of the underlying securities in the fund's portfolio (Level 2). Fixed income securities are valued using a market approach, based upon quoted prices for the specific security or from institutional bid evaluations. Some fixed income securities are in funds with a net asset value per unit which is determined using similar techniques for the underlying securities in the fund's portfolio. Real estate is valued by discounting to present value the cash flows expected to be generated by the specific properties.

The following table provides a reconciliation of the beginning and ending balances of our foreign pension plan assets measured at fair value that used significant unobservable inputs (Level 3) (in millions):

	December 31, 2015
Beginning Balance	$ 68.6
Gains on assets sold	0.2
Change in fair value of assets	2.2
Net purchases and sales	3.5
Translation loss	(0.6)
Ending Balance	$ 73.9

We expect that we will have no legally required minimum funding requirements in 2016 for the qualified U.S. and Puerto Rico defined benefit retirement plans, nor do we expect to voluntarily contribute to these plans during 2016. Contributions to foreign defined benefit plans are estimated to be $15.1 million in 2016. We do not expect the assets in any of our plans to be returned to us in the next year.

Defined Contribution Plans

We also sponsor defined contribution plans for substantially all of the U.S. and Puerto Rico employees and certain employees in other countries. The benefits offered under these plans are reflective of local customs and practices in the countries concerned. We expensed $40.2 million, $32.8 million and $29.6 million related to these plans for the years ended December 31, 2015, 2014 and 2013, respectively.

16. Income Taxes

The components of earnings before income taxes consisted of the following (in millions):

For the Years Ended December 31,	2015	2014	2013
United States operations	$(246.2)	$403.3	$ 412.4
Foreign operations	399.4	536.1	595.7
Total	$ 153.2	$939.4	$1,008.1

The provision for income taxes and the income taxes paid consisted of (in millions):

Current:			
Federal	$ 55.8	$178.2	$ 207.2
State	18.9	16.5	20.8
Foreign	96.3	116.0	127.7
	171.0	310.7	355.7
Deferred:			
Federal	(120.6)	(54.8)	(91.8)
State	(20.0)	(6.6)	(8.4)
Foreign	(23.4)	(29.1)	(26.0)
	(164.0)	(90.5)	(126.2)
Provision for income taxes	$ 7.0	$220.2	$ 229.5
Income taxes paid	$ 193.6	$340.1	$ 272.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

A reconciliation of the U.S. statutory income tax rate to our effective tax rate is as follows:

For the Years Ended December 31,	2015	2014	2013
U.S. statutory income tax rate	35.0%	35.0%	35.0%
State taxes, net of federal deduction	(2.4)	0.7	0.8
Tax impact of foreign operations, including foreign tax credits	(40.2)	(11.7)	(12.1)
Change in valuation allowance	(3.7)	–	–
Non-deductible expenses	2.4	–	–
Tax impact of certain significant transactions	21.6	1.4	1.6
Tax benefit relating to U.S. manufacturer's deduction and export sales	(6.2)	(1.9)	(1.8)
R&D credit	(2.5)	(0.2)	(0.6)
Other	0.6	0.1	(0.1)
Effective income tax rate	4.6%	23.4%	22.8%

Our operations in Puerto Rico and Switzerland benefit from various tax incentive grants. These grants expire between fiscal years 2019 and 2029.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are recorded to reduce deferred income tax assets when it is more likely than not that an income tax benefit will not be realized.

The components of deferred taxes consisted of the following (in millions):

As of December 31,	2015	2014
Deferred tax assets:		
Inventory	$ 159.7	$ 275.1
Net operating loss carryover	117.4	116.9
Tax credit carryover	207.8	185.5
Capital loss carryover	4.2	7.4
Accrued liabilities	190.2	106.7
Share-based compensation	59.0	59.9
Accounts receivable	23.7	–
Unremitted earnings of foreign subsidiaries	–	32.3
Other	133.6	50.3
Total deferred tax assets	895.6	834.1
Less: Valuation allowances	(72.7)	(122.8)
Total deferred tax assets after valuation allowances	822.9	711.3
Deferred tax liabilities:		
Fixed assets	$ (144.6)	$(104.3)
Intangible assets	(2,337.2)	(95.9)
Unremitted earnings of foreign subsidiaries	(1,374.8)	–
Other	(4.3)	–
Total deferred tax liabilities	(3,860.9)	(200.2)
Total net deferred income taxes	$(3,038.0)	$ 511.1

Net operating loss carryovers are available to reduce future federal, state and foreign taxable earnings. At December 31, 2015, $103.9 million of these net operating loss carryovers generally expire within a period of 1 to 20 years and $13.5 million of these net operating loss carryovers have an indefinite life. Valuation allowances for net operating loss carryovers have been established in the amount of $47.0 million and $99.0 million at December 31, 2015 and 2014, respectively.

Deferred tax assets related to tax credit carryovers are available to offset future federal, state and foreign tax liabilities. At December 31, 2015, the Company's total tax credit carryovers of $207.8 million generally expire within a period of 1 to 10 years. Valuation allowances for certain tax credit carryovers have been established in the amount of $14.4 million and $11.5 million at December 31, 2015 and 2014, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Deferred tax assets related to capital loss carryovers are also available to reduce future federal capital gains. At December 31, 2015, the Company's capital loss carryovers of $4.2 million generally expire within a period of 2 to 4 years. Valuation allowances for certain capital loss carryovers have been established in the amount of $4.2 million and $7.4 million at December 31, 2015 and 2014, respectively. The remaining valuation allowances booked against deferred tax assets of $7.1 million and $4.9 million at December 31, 2015 and 2014, respectively, relate primarily to intangible assets and potential capital losses that management believes, more likely than not, will not be realized.

At December 31, 2015, we had an aggregate of approximately $3,853 million of unremitted earnings of foreign subsidiaries that have been, or are intended to be, indefinitely reinvested for continued use in foreign operations. If the total undistributed earnings of foreign subsidiaries were remitted, a significant amount of the additional tax would be offset by the allowable foreign tax credits. It is not practical for us to determine the additional tax related to remitting these earnings.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits (in millions):

For the Years Ended December 31,	2015	2014	2013
Balance at January 1	$321.7	$311.0	$293.9
Increase related to the merger*	247.6	–	–
Increases related to prior periods	1.3	0.9	16.5
Decreases related to prior periods	–	(3.8)	(17.3)
Increases related to current period	25.7	18.3	20.8
Decreases related to settlements with taxing authorities	(1.4)	(3.0)	(2.9)
Decreases related to lapse of statute of limitations	(3.0)	(1.7)	–
Balance at December 31	$591.9	$321.7	$311.0
Amounts impacting effective tax rate, if recognized balance at December 31*	$526.6	$186.3	$191.2

* Subject to change during measurement period of the merger.

We recognize accrued interest and penalties related to unrecognized tax benefits as income tax expense. During 2015, we accrued interest and penalties of $4.8 million, and as of December 31, 2015, had a recognized liability for interest and penalties of $82.9 million, which included a $29.8 million increase from December 31, 2014 related to the Biomet merger.

During 2014, we accrued interest and penalties of $5.9 million, and as of December 31, 2014, had recognized a liability for interest and penalties of $48.3 million. During 2013, we accrued interest and penalties of $8.1 million, and as of December 31, 2013, had recognized a liability for interest and penalties of $42.4 million.

We operate on a global basis and are subject to examinations by taxing authorities throughout the world, including major jurisdictions such as: Australia, Canada, China, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, Puerto Rico, Spain, Switzerland, the United Kingdom and the United States.

Our U.S. Federal income tax returns have been audited through 2009 and are currently under audit for years 2010-2014. The IRS has proposed adjustments for years 2005-2009, reallocating profits between certain of our U.S. and foreign subsidiaries. We have disputed these adjustments and intend to continue to vigorously defend our positions. For years 2005-2007, we have filed a petition with the U.S. Tax Court. For years 2008-2009, we are pursuing resolution through the IRS Administrative Appeals Process. The acquired Biomet consolidation group has been audited through financial year 2008.

State income tax returns are generally subject to examination for a period of 3 to 5 years after filing of the respective return. The state impact of any federal changes generally remains subject to examination by various states for a period of up to one year after formal notification to the states. We have various state income tax return positions in the process of examination, administrative appeals or litigation.

In other major jurisdictions, open years are generally 2008 or later.

The net amount of tax liability for unrecognized tax benefits may change within the next twelve months due to changes in audit status, expiration of statutes of limitations, settlements of tax assessments and other events which could impact our determination of unrecognized tax benefits. Currently, we cannot reasonably estimate the amount by which our unrecognized tax benefits will change.

17. Capital Stock and Earnings per Share

We are authorized to issue 250.0 million shares of preferred stock, none of which were issued or outstanding as of December 31, 2015.

The numerator for both basic and diluted earnings per share is net earnings available to common stockholders. The denominator for basic earnings per share is the weighted average number of common shares outstanding during the period. The denominator for diluted earnings per share is weighted average shares outstanding adjusted for the effect of dilutive stock options and other equity awards. The following is a reconciliation of weighted average shares for the basic and diluted share computations (in millions):

For the Years Ended December 31,	2015	2014	2013
Weighted average shares outstanding for basic net earnings per share	187.4	169.0	169.6
Effect of dilutive stock options and other equity awards	2.4	2.7	2.2
Weighted average shares outstanding for diluted net earnings per share	189.8	171.7	171.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the years ended December 31, 2015 and 2013, an average of 0.5 million and 3.1 million options, respectively, to purchase shares of common stock were not included in the computation of diluted earnings per share as the exercise prices of these options were greater than the average market price of the common stock. In the year ended December 31, 2014, all outstanding options to purchase shares of common stock were included in the computation of diluted earnings per share as the exercise prices of all options were less than the average market price of the common stock.

During 2015, we repurchased 1.4 million shares of our common stock at an average price of $106.01 per share for a total cash outlay of $150.0 million, including commissions.

18. Segment Data

We design, manufacture and market orthopaedic reconstructive products; sports medicine, biologics, extremities and trauma products; spine, bone healing, craniomaxillofacial and thoracic products; dental implants; and related surgical products. Due to the Biomet merger, we changed our senior management organizational structure which has resulted in a change to our operating segments. We now allocate resources to achieve our operating profit goals through seven operating segments. Our operating segments are comprised of both geographic and product category business units. The geographic operating segments are the Americas, which is comprised principally of the U.S. and includes other North, Central and South American markets; EMEA, which is comprised principally of Europe and includes the Middle East and African markets; and Asia Pacific, which is comprised primarily of Japan and includes other Asian and Pacific markets. The product category operating segments are Americas Spine, Bone Healing, CMF and Dental. The geographic operating segments include results from all of our product categories except those in the product category operating segments. The Bone Healing, CMF and Dental product category operating segments reflect those respective product category results from all regions, whereas the Americas Spine operating segment only includes spine product results from the Americas.

As it relates to the geographic operating segments, management evaluates performance based upon segment operating profit exclusive of operating expenses pertaining to inventory step-up and certain other inventory and manufacturing related charges, "Certain claims," goodwill impairment, intangible asset amortization, "Special items," and global operations and corporate functions. Global operations and corporate functions include research, development engineering, medical education, brand management, corporate legal, finance and human resource functions, manufacturing operations and logistics and share-based payment expense. As it relates to each product category operating segment, research, development engineering, medical education, brand management and other various costs that are specific to the product category operating segment's operations are reflected in its operating profit results. Due to these additional costs included in the product category operating segments, profitability metrics between the geographic operating segments and product category operating segments are not comparable. Intercompany transactions have been eliminated from segment operating profit.

Management reviews accounts receivable, inventory, and property, plant and equipment assets by reportable segment exclusive of manufacturing operations and logistics and corporate assets.

These seven operating segments are the basis for our reportable segment information provided below. The four product category operating segments are individually insignificant to our consolidated results and therefore do not constitute a reporting segment either individually or combined. For presentation purposes, these product category operating segments have been aggregated. Prior period reportable segment financial information has been restated to conform to the current period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Net sales and other information by segment is as follows (in millions):

	Americas	EMEA	Asia Pacific	Product Category Operating Segments	Global Operations and Corporate Functions	Total
As of and for the Year Ended December 31, 2015						
Net sales	$3,109.4	$1,302.9	$881.6	$ 703.9	$ –	$ 5,997.8
Depreciation and amortization	110.0	61.1	37.9	21.0	482.4	712.4
Segment operating profit	1,647.0	445.3	421.9	167.9	(689.1)	1,993.0
Inventory step-up and certain other inventory and manufacturing related charges						(348.8)
Intangible asset amortization						(337.4)
Certain claims						(7.7)
Special items						
Biomet merger related						(619.1)
Other special items						(212.7)
Operating profit						467.3
Total assets	1,525.0	1,382.2	642.4	788.3	22,881.6	27,219.5
Additions to instruments	1.6	0.2	4.7	22.8	237.1	266.4
Additions to other property, plant and equipment	21.7	3.4	9.0	4.6	129.0	167.7
As of and for the Year Ended December 31, 2014						
Net sales	$2,320.2	$1,189.1	$789.2	$ 374.8	$ –	$ 4,673.3
Depreciation and amortization	70.5	46.0	30.2	7.5	221.6	375.8
Segment operating profit	1,215.4	435.6	371.0	76.5	(569.8)	1,528.7
Inventory step-up and certain other inventory and manufacturing related charges						(36.3)
Intangible asset amortization						(92.5)
Certain claims						(21.5)
Special items						
Biomet merger related						(61.9)
Other special items						(279.2)
Operating profit						1,037.3
Total assets	1,012.0	924.0	380.3	295.1	7,046.6	9,658.0
Additions to instruments	0.2	0.1	6.0	16.3	174.8	197.4
Additions to other property, plant and equipment	8.6	2.1	9.1	2.6	122.5	144.9
As of and for the Year Ended December 31, 2013						
Net sales	$2,347.6	$1,134.0	$771.9	$ 369.9	$ –	$ 4,623.4
Depreciation and amortization	62.6	48.2	30.0	7.7	210.0	358.5
Segment operating profit	1,293.5	401.2	335.6	79.9	(617.1)	1,493.1
Inventory step-up and certain other inventory and manufacturing related charges						(88.7)
Intangible asset amortization						(78.5)
Certain claims						(47.0)
Special items						
Biomet merger related						–
Other special items						(210.3)
Operating profit						1,068.6
Total assets	947.9	974.5	375.9	322.9	6,973.8	9,595.0
Additions to instruments	0.2	0.3	6.5	14.9	171.0	192.9
Additions to other property, plant and equipment	8.7	1.2	7.6	4.6	77.9	100.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For segment reporting purposes, deployed instruments are included in the measurement of reportable segment assets while undeployed instruments at manufacturing operations and logistics are included in global operations and corporate functions. The majority of instruments are purchased by manufacturing operations and logistics and are deployed to the reportable segments as needed for the business. Therefore, the reportable segment assets include deployed instruments even though that reportable segment may not report the instrument addition.

We conduct business in the following countries that hold 10 percent or more of our total consolidated Property, plant and equipment, net:

As of December 31,	2015	2014	2013
United States	$ 1,188.6	$ 794.4	$ 737.6
Switzerland	200.9	198.7	211.5
Other countries	673.1	292.2	280.4
Property, plant and equipment, net	$ 2,062.6	$ 1,285.3	$ 1,229.5

U.S. sales were $3,447.2 million, $2,397.9 million and $2,418.2 million for the years ended December 31, 2015, 2014 and 2013, respectively. Sales within any other individual country were less than 10 percent of our consolidated sales in each of those years. Sales are attributable to a country based upon the customer's country of domicile.

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

For the Years Ended December 31,	2015	2014	2013
Knees	$ 2,276.8	$ 1,895.2	$ 1,862.2
Hips	1,537.2	1,326.4	1,330.5
S.E.T.	1,214.9	863.2	847.2
Dental	335.7	242.8	239.3
Spine & CMF	404.4	207.2	202.3
Other	228.8	138.5	141.9
Total	5,997.8	4,673.3	4,623.4

19. Leases

Total rent expense for the years ended December 31, 2015, 2014 and 2013 aggregated $60.1 million, $48.4 million and $49.2 million, respectively.

Future minimum rental commitments under non-cancelable operating leases in effect as of December 31, 2015 were (in millions):

For the Years Ending December 31,	
2016	$59.1
2017	44.7
2018	33.9
2019	26.4
2020	21.8
Thereafter	45.9

20. Commitments and Contingencies

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

Litigation

Durom® Cup-related claims: On July 22, 2008, we temporarily suspended marketing and distribution of the Durom Cup in the U.S. Subsequently, a number of product liability lawsuits were filed against us in various U.S. and foreign jurisdictions. The plaintiffs seek damages for personal injury, and they generally allege that the Durom Cup contains defects that result in complications and premature revision of the device. We have settled some of these claims and others are still pending. The majority of the pending U.S. lawsuits are currently in a federal Multidistrict Litigation ("MDL") in the District of New Jersey (*In Re: Zimmer Durom Hip Cup Products Liability Litigation*). Multi-plaintiff state court cases are pending in St. Clair County, Illinois (*Santas, et al. v. Zimmer, Inc., et al.*) and Los Angeles County, California (*McAllister, et al. v. Zimmer, Inc., et al.*). As of December 31, 2015, case specific discovery in these lawsuits was ongoing. The initial trial in *Santas* took place in November 2014, the initial trial in the MDL took place in May 2015 and the initial trial in *McAllister* took place in July 2015. Other lawsuits are pending in various jurisdictions, and additional claims may be asserted in the future.

Since 2008, we have recognized expense of $479.4 million for Durom Cup-related claims, including $7.7 million during the year ended December 31, 2015 that is reported on the "Certain claims" line of our consolidated statement of earnings. We recognized $21.5 million and $47.0 million in expense for Durom Cup-related claims during the years ended December 31, 2014 and 2013, respectively.

We maintain insurance for product liability claims, subject to self-insurance retention requirements. As of December 31, 2015, we have exhausted our self-insured retention under our insurance program and have a claim for insurance proceeds for ultimate losses which exceed the self-insured retention amount, subject to a 20 percent co-payment requirement and a cap. We believe our contracts with the insurance carriers are enforceable for these claims and, therefore, it is probable that we will recover some amount from our insurance carriers. We have received a portion of the insurance proceeds we estimate we will recover. We have a $95.3 million receivable in "Other assets" remaining on our consolidated balance sheet as of December 31, 2015 for estimated insurance recoveries for Durom Cup-related claims. As is customary in this process,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

our insurance carriers have reserved all rights under their respective policies and could still ultimately deny coverage for some or all of our insurance claims.

Our estimate as of December 31, 2015 of the remaining liability for all Durom Cup-related claims is $314.6 million, of which $50.0 million is classified as short-term in "Other current liabilities" and $264.6 million is classified as long-term in "Other long-term liabilities" on our consolidated balance sheet. We expect to pay the majority of the Durom Cup-related claims within the next few years.

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

Margo and Daniel Polett v. Zimmer, Inc. et al.: On August 20, 2008, Margo and Daniel Polett filed an action against us and an unrelated third party, Public Communications, Inc. ("PCI"), in the Court of Common Pleas, Philadelphia, Pennsylvania seeking an unspecified amount of damages for injuries and loss of consortium allegedly suffered by Mrs. Polett and her spouse, respectively. The complaint alleged that defendants were negligent in connection with Mrs. Polett's participation in a promotional video featuring one of our knee products. The case was tried in November 2010 and the jury returned a verdict in favor of plaintiffs. The jury awarded $27.6 million in compensatory damages and apportioned fault 30 percent to plaintiffs, 34 percent to us and 36 percent to PCI. Under applicable law, we may be liable for any portion of the damages apportioned to PCI that it does not pay. On December 2, 2010, we and PCI filed a motion for post-trial relief seeking a judgment notwithstanding the verdict, a new trial or a remittitur. On June 10, 2011, the trial court entered an order denying our motion for post-trial relief and affirming the jury verdict in full and entered judgment for $20.3 million against us and PCI. On June 29, 2011, we filed a notice of appeal to the Superior Court of Pennsylvania and posted a bond for the verdict amount plus interest. Oral argument before the appellate court in Philadelphia, Pennsylvania was held on March 13, 2012. On March 1, 2013, the Superior Court of Pennsylvania vacated the $27.6 million judgment and remanded the case for a new trial. On March 15, 2013, plaintiffs filed a motion for re-argument en banc, and on March 28, 2013, we filed our response in opposition. On May 9, 2013, the Superior Court of Pennsylvania granted plaintiffs' motion for re-argument en banc. Oral argument (re-argument en banc) before the Superior Court of Pennsylvania was held on October 16, 2013. On December 20, 2013, the Court issued its opinion again vacating the trial court judgment and remanding the case for a new trial. On January 21, 2014, plaintiffs filed a petition for allowance of appeal in the Supreme Court of Pennsylvania, which was granted on May 21, 2014. Oral argument before the Supreme Court of Pennsylvania took place on October 8, 2014. On October 27, 2015, the Supreme Court of Pennsylvania reversed the order of the Superior Court of Pennsylvania and remanded the case to that court to consider the question of whether the trial court erred in refusing to remit the jury's compensatory damages award. Although we are defending this lawsuit vigorously, its ultimate resolution is uncertain.

NexGen Knee System claims: Following a wide-spread advertising campaign conducted by certain law firms beginning in 2010, a number of product liability lawsuits have been filed against us in various jurisdictions. The plaintiffs seek damages for personal injury, alleging that certain products within the NexGen Knee System suffer from defects that cause them to loosen prematurely. The majority of the cases are currently pending in a federal MDL in the Northern District of Illinois (*In Re: Zimmer NexGen Knee Implant Products Liability Litigation*). Other cases are pending in other state and federal courts, and additional lawsuits may be filed. As of December 31, 2015, discovery in these lawsuits was ongoing. The initial bellwether trial took place in October 2015. We have not accrued an estimated loss relating to these lawsuits because we believe the plaintiffs' allegations are not consistent with the record of clinical success for these products. As a result, we do not believe that it is probable that we have incurred a liability, and we cannot reasonably estimate any loss that might eventually be incurred. Although we are vigorously defending these lawsuits, their ultimate resolution is uncertain.

Biomet metal-on-metal hip implant claims: Biomet is a defendant in a number of product liability lawsuits relating to metal-on-metal hip implants. The majority of these cases involve the M2a-Magnum hip system. The majority of the cases are currently consolidated in one federal MDL proceeding in the U.S. District Court for the Northern District of Indiana *(In Re: Biomet M2a Magnum Hip Implant Product Liability Litigation)*. Other cases are pending in various state and foreign courts.

On February 3, 2014, Biomet announced the settlement of the MDL. Lawsuits filed in the MDL by April 15, 2014 may participate in the settlement. Biomet continues to evaluate the inventory of lawsuits in the MDL pursuant to the categories and procedures set forth in the settlement agreement. The final amount of payments under the settlement is uncertain. The settlement does not affect certain other claims relating to Biomet's metal-on-metal hip products that are pending in various state and foreign courts, or other claims that may be filed in the future. Our estimate as of December 31, 2015 of the remaining liability for all Biomet metal-on-metal hip implant claims is $33.4 million.

Biomet has exhausted the self-insured retention in its insurance program and has been reimbursed for claims related

to its metal-on-metal products up to its policy limits in the program. Zimmer Biomet will be responsible for any amounts by which the ultimate losses exceed the amount of Biomet's third-party insurance coverage. As of December 31, 2015, Biomet had received all of the insurance proceeds it expects to recover under the excess policies.

Heraeus trade secret misappropriation lawsuits: In December 2008, Heraeus Kulzer GmbH (together with its affiliates, "Heraeus") initiated legal proceedings in Germany against Biomet, Biomet Europe BV and certain other subsidiaries of Biomet, Inc., alleging that Biomet, Inc. and Biomet Europe BV misappropriated Heraeus trade secrets when developing Biomet Europe's Refobacin and Biomet Bone Cement line of cements ("European Cements"). The lawsuit sought to preclude the defendants from producing, marketing and offering for sale their current line of European Cements and to compensate Heraeus for any damages incurred (alleged to be in excess of €30.0 million). On December 20, 2012, the trial court dismissed Biomet, Inc., Biomet Europe BV, Biomet Deutschland GmbH and other defendants from the lawsuit. Biomet Orthopaedics Switzerland GmbH was the only Biomet entity remaining as a defendant.

Following an appeal by Heraeus, on June 5, 2014, the German appeals court (i) enjoined Biomet, Inc., Biomet Europe BV and Biomet Deutschland GmbH from manufacturing, selling or offering the European Cements to the extent they contain certain raw materials in particular specifications; (ii) held the defendants jointly and severally liable to Heraeus for any damages from the sale of European Cements since 2005; and (iii) ruled that no further review may be sought. Damages have not been determined. The judgment is not final and the defendants are seeking review (including review of the appeals court ruling that no further review may be sought) from Germany's Supreme Court. No prediction can be made as to the likelihood of review being granted by Germany's Supreme Court.

As a result, Biomet Europe BV and Biomet Deutschland GmbH are enjoined from the manufacture, marketing, sale and offering of European Cements in Germany. While Heraeus has indicated that it intends to take the position that the judgment would prohibit the manufacture, marketing, sale and offering of European Cements outside of Germany as well and is attempting to enforce the judgment in a limited number of other European jurisdictions, Biomet, Inc., Biomet Europe BV and Biomet Deutschland GmbH are vigorously contesting any enforcement of the judgment beyond Germany. Biomet, Inc., Biomet Europe BV and Biomet Deutschland GmbH thus filed a declaratory action in Germany on August 3, 2014 to have the court determine the reach of the appeals court decision.

On September 8, 2014, Heraeus filed a complaint against a Biomet supplier, Esschem, Inc. ("Esschem"), in the United States District Court for the Eastern District of Pennsylvania. The lawsuit contains allegations that focus on two copolymer compounds that Esschem sells to Biomet, which Biomet incorporates into certain bone cement products that compete with Heraeus' bone cement products. The complaint alleges that Biomet helped Esschem to develop these copolymers, using Heraeus trade secrets that Biomet allegedly misappropriated. The complaint asserts a claim under the Pennsylvania Trade Secrets Act, as well as other various common law tort claims, all based upon the same trade secret misappropriation theory. Heraeus is seeking to enjoin Esschem from supplying the copolymers to any third party and actual damages in an unspecified amount. The complaint also seeks punitive damages, costs and attorneys' fees. If Esschem is enjoined, Biomet may not be able to obtain the copolymers from another supplier and as a result may not be able to continue to manufacture the subject bone cement products. Although Heraeus has not named Biomet as a party to this lawsuit, Biomet has agreed, at Esschem's request and subject to certain limitations, to indemnify Esschem for any liability, damages and legal costs related to this matter. On November 3, 2014, the court entered an order denying Heraeus' motion for a temporary restraining order.

On October 15, 2015, Heraeus initiated expedited proceedings against Biomet France, Biomet SAS, Biomet Europe BV, Biomet, Inc., Biomet Orthopedics Switzerland GmbH and Biomet Global Supply Chain Center BV before the Commercial Court in Paris seeking to enjoin these entities from importing the certain raw materials subject to the rulings in Germany and from manufacturing, selling or exporting the bone cements made from those raw materials, including under the names of the European Cements. On November 16, 2015, the presiding judge ruled that it had no jurisdiction over Biomet, Inc. and on December 4, 2015, the judge denied the preliminary measures requested by Heraeus. Heraeus has not appealed this ruling or filed an action on the merits before the Commercial Court in Paris. On December 8, 2015, Heraeus filed separate proceedings against Biomet France, Biomet SAS and Biomet France Holding before the Commercial Court of Roman-Sur-Isere seeking to gain access to certain documents which had been seized during searches of Biomet France's premises in June 2015. Biomet is defending itself vigorously in this proceeding, which is still ongoing.

Heraeus continues to initiate other related legal proceedings in Europe seeking various forms of relief, including injunctive relief and damages, against Biomet-related entities relating to the European Cements.

No assurance can be made as to the time or resources that will be needed to devote to this litigation or its final outcome.

Stryker patent infringement lawsuit: On December 10, 2010, Stryker Corporation and related entities ("Stryker") filed suit against us in the U.S. District Court for the Western District of Michigan, alleging that certain of our Pulsavac® Plus Wound Debridement Products infringe three U.S. patents assigned to Stryker. The case was tried beginning on January 15, 2013, and on February 5, 2013, the jury found that we infringed certain claims of the subject patents. The jury awarded $70.0 million in monetary damages for lost profits. The jury also found that we willfully infringed the subject

patents. We filed multiple post-trial motions, including a motion seeking a new trial. On August 7, 2013, the trial court issued a ruling denying all of our motions and awarded treble damages and attorneys' fees to Stryker. We filed a notice of appeal to the Court of Appeals for the Federal Circuit to seek reversal of both the jury's verdict and the trial court's rulings on our post-trial motions. Oral argument before the Court of Appeals for the Federal Circuit took place on September 8, 2014. On December 19, 2014, the Federal Circuit issued a decision affirming the $70.0 million lost profits award but reversed the willfulness finding, vacating the treble damages award and vacating and remanding the attorneys' fees award. We accrued an estimated loss of $70.0 million related to this matter in the three month period ended December 31, 2014. On January 20, 2015, Stryker filed a motion with the Federal Circuit for a rehearing en banc. On March 23, 2015, the Federal Circuit denied Stryker's petition. Stryker subsequently filed a petition for certiorari to the U.S. Supreme Court. In July 2015, we paid the final award of $90.3 million, which includes the original $70.0 million plus pre- and post-judgment interest and damages for sales that occurred post-trial but prior to our entry into a license agreement with Stryker. On October 19, 2015, the U.S. Supreme Court granted Stryker's petition for certiorari. Oral argument took place on February 23, 2016. Although we are defending this lawsuit vigorously, the ultimate resolution of this matter is uncertain. In the future, we could be required to record a charge of up to $140.0 million that could have a material adverse effect on our results of operations.

Bonutti patent infringement lawsuits: On May 3, 2013, Bonutti Skeletal Innovations LLC ("Bonutti Skeletal"), a company formed to hold certain patents acquired from Dr. Peter M. Bonutti and an affiliate of patent licensing firm Acacia Research Group LLC ("Acacia"), filed suit against Biomet in the U.S. District Court for the Eastern District of Texas, alleging a failure to pay royalties due under a license agreement with Dr. Bonutti, misuse of confidential information and infringement of 15 U.S. patents. Prior to the filing of this lawsuit, on March 8, 2013, Biomet had filed a complaint for declaratory judgment with the U.S. District Court for the Northern District of Indiana seeking a judgment of non-infringement and invalidity of the patents at issue, and Acacia entered counterclaims of infringement seeking damages in an amount yet to be determined and injunctive relief. On September 17, 2013, the May 3, 2013 case filed in the Eastern District of Texas was dismissed. On March 31, 2014, Biomet entered into a settlement and license agreement with Bonutti Skeletal settling all claims related to five of the patents at issue for a one-time payment, and on June 25, 2014, the U.S. District Court for the Northern District of Indiana issued an order dismissing the claims related to those patents with prejudice. The litigation then proceeded with respect to the remaining patents at issue.

On September 10, 2012, Bonutti Skeletal filed suit against Zimmer in the U.S. District Court for the District of Delaware, alleging infringement of three U.S. patents. An amended complaint was filed on January 15, 2013, alleging infringement of three additional patents. Zimmer requested an Inter Partes Review ("IPR") of three of the patents at issue. IPRs were granted for two of the patents. Zimmer moved for a stay of the case during the pendency of the IPRs, and on April 7, 2014, the court granted the stay. In May 2015, the U.S. Patent and Trademark Office issued its decision in the IPRs, invalidating all of the challenged patent claims in both patents. Bonutti Skeletal decided not to appeal that decision. On June 30, 2015, the court lifted the stay and the litigation then proceeded with respect to the remaining patents at issue.

On October 30, 2015, the Bonutti litigation was settled in a joint settlement of the legacy Biomet litigation and legacy Zimmer litigation related to the same entity.

Regulatory Matters, Government Investigations and Other Matters

FDA warning letters: In September 2012, Zimmer received a warning letter from FDA citing concerns relating to certain processes pertaining to products manufactured at our Ponce, Puerto Rico manufacturing facility. In June 2015, Biomet received a warning letter from the FDA that requested additional information to allow the FDA to evaluate the adequacy of Biomet's responses to certain Form 483 observations issued following an inspection of Biomet's Zhejiang, China manufacturing facility in January 2015. We have provided detailed responses to the FDA as to our corrective actions and will continue to work expeditiously to address the issues identified by the FDA during inspections in Ponce and Zhejiang. As of December 31, 2015, these warning letters remained pending. Until the violations are corrected, we may be subject to additional regulatory action by the FDA, including seizure, injunction and/or civil monetary penalties. Additionally, requests for Certificates to Foreign Governments related to products manufactured at the Ponce and Zhejiang facilities may not be granted and premarket approval applications for Class III devices to which the quality system regulation deviations at these facilities are reasonably related will not be approved until the violations have been corrected. In addition to responding to the warning letters described above, we are in the process of addressing various FDA Form 483 inspectional observations at certain of our manufacturing facilities. The ultimate outcome of these matters is presently uncertain.

Biomet DPA and Consent: On March 26, 2012, Biomet entered into a Deferred Prosecution Agreement ("DPA") with the DOJ and a Consent with the SEC related to an investigation by the DOJ and the SEC into possible violations of the FCPA in the marketing and sale of medical devices in certain foreign countries. Pursuant to the DPA, the DOJ agreed to defer prosecution of Biomet in connection with those matters, provided that Biomet satisfies its obligations under the DPA over the term of the DPA. The DPA had a three-year term and provided that it could be extended in the sole discretion of the DOJ for an additional year. Pursuant to the

Consent, Biomet consented to the entry of a Final Judgment which, among other things, permanently enjoined Biomet from violating the provisions of the FCPA. In addition, pursuant to the terms of the DPA, an independent external compliance monitor was appointed to review Biomet's compliance with the DPA, particularly in relation to Biomet's international sales practices. The Consent that Biomet entered into with the SEC mirrors the DPA's provisions with respect to the compliance monitor.

In October 2013, Biomet became aware of certain alleged improprieties regarding its operations in Brazil and Mexico, including alleged improprieties that predated the entry of the DPA. Biomet retained counsel and other experts to investigate both matters. Based on the results of the ongoing investigations, Biomet has terminated, suspended or otherwise disciplined certain of the employees and executives involved in these matters, and has taken certain other remedial measures. Additionally, pursuant to the terms of the DPA, in April 2014 and thereafter, Biomet disclosed these matters to and discussed these matters with the independent compliance monitor and the DOJ and SEC. On July 2, 2014 and July 13, 2015, the SEC issued subpoenas to Biomet requiring that Biomet produce certain documents relating to such matters. These matters remain under investigation by the DOJ.

On March 13, 2015, the DOJ informed Biomet that the DPA and the independent compliance monitor's appointment have been extended for an additional year. On April 2, 2015, at the request of the staff of the SEC, Biomet consented to an amendment to the Final Judgment to extend the term of the compliance monitor's appointment for one year from the date of entry of the Amended Final Judgment.

Pursuant to the DPA, the DOJ has sole discretion to determine whether conduct by Biomet constitutes a violation or breach of the DPA. The DOJ has informed Biomet that it retains its rights under the DPA to bring further action against Biomet relating to the conduct in Brazil and Mexico referenced above or the violations set forth in the DPA. The DOJ could, among other things, revoke the DPA or prosecute Biomet and/or the involved former employees and executives. Biomet continues to cooperate with the SEC and DOJ and expects that discussions with the SEC and the DOJ will continue. While we are devoting significant time and resources to these matters, we can give no assurances as to their final outcome.

Other Government Investigations and Document Requests: In June 2013, Biomet received a subpoena from the U.S. Attorney's Office for the District of New Jersey requesting various documents relating to the fitting of custom-fabricated or custom-fitted orthoses, or bracing, to patients in New Jersey, Texas and Washington. Biomet has produced responsive documents and is fully cooperating with the request of the U.S. Attorney's Office. We may need to devote significant time and resources to this inquiry and can give no assurances as to its final outcome.

In July 2011, Biomet received an administrative subpoena from the Office of Foreign Assets Control of the U.S. Department of the Treasury ("OFAC") requesting documents concerning the export of products to Iran. OFAC informed Biomet that the subpoena related to allegations that Biomet may have been involved in unauthorized sales of dental products to Iran. Biomet is fully cooperating in the investigation and submitted its response to the subpoena in October 2011. We may need to devote significant time and resources to this inquiry and can give no assurances as to its final outcome.

In February 2010, Biomet received a subpoena from the Office of the Inspector General of the U.S. Department of Health and Human Services requesting various documents relating to agreements or arrangements between physicians and Biomet's Interpore Cross subsidiary for the period from 1999 through the date of the subpoena and the marketing and sales activities associated with Interpore Cross' spinal products. Biomet is fully cooperating in the investigation. We may need to devote significant time and resources to this inquiry and can give no assurances as to its final outcome.

21. Quarterly Financial Information (Unaudited)

(in millions, except per share data)

	2015 Quarter Ended				2014 Quarter Ended			
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Net sales	$1,134.4	$1,167.6	$1,762.2	$1,933.6	$1,161.5	$1,182.9	$1,106.0	$1,222.9
Gross profit	829.1	840.3	1,087.5	1,102.9	826.8	833.1	789.5	888.6
Net earnings of Zimmer Biomet Holdings, Inc.	171.4	(173.6)	22.2	127.0	221.0	172.4	173.1	153.8
Earnings per common share								
Basic	1.01	(1.00)	0.11	0.62	1.31	1.02	1.02	0.91
Diluted	0.99	(1.00)	0.11	0.62	1.29	1.01	1.01	0.89

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2015, the end of the period covered by this report, our disclosure controls and procedures are effective at a reasonable assurance level.

Management's Annual Report on Internal Control Over Financial Reporting

Our management's report on internal control over financial reporting appears on page 34 of this report and is incorporated herein by reference.

Remediation of Previously Reported Material Weakness

As discussed in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, in the three month period ended September 30, 2015, our management identified a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness in our internal control over financial reporting that we identified was a result of us not enhancing the level of resources and processes necessary to analyze and determine the appropriate accounting treatment of non-routine, complex transactions under GAAP commensurate with the additional complexities existing subsequent to the Biomet merger. As a result of this material weakness, we inappropriately accounted for the divestiture of certain Biomet product lines and rights in the three month period ended June 30, 2015, and we subsequently revised our financial statements for that period.

As of December 31, 2015, we have remediated the previously reported material weakness in our internal control over financial reporting. We have implemented the following changes in our internal control over financial reporting that contributed to the remediation of the material weakness described above:

- we enhanced our processes for analyzing and determining the appropriate accounting treatment for non-routine, complex transactions under GAAP;
- we enhanced our policies and procedures related to analysis of non-routine, complex transactions, including, but not limited to, increased management oversight; and
- we added additional, experienced resources to augment our existing corporate accounting resources.

Based on the remedial measures taken and implemented, our management has tested the applicable controls and determined that they are designed and operating effectively. As a result, our management has concluded that the material weakness described above has been remediated as of December 31, 2015.

Changes in Internal Control Over Financial Reporting

As described above, there were changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Also, as previously noted, we completed our merger with Biomet on June 24, 2015. We are completing the process of reviewing the internal control structure of Biomet and will make appropriate changes as necessary as we integrate Biomet into our overall internal control over financial reporting process.

Item 9B. Other Information

During the fourth quarter of 2015, the Audit Committee of our Board of Directors approved the engagement of PricewaterhouseCoopers LLP, our independent registered public accounting firm, to perform certain non-audit services related to certain tax matters. This disclosure is made pursuant to Section 10A(i)(2) of the Exchange Act.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item is incorporated by reference from our definitive Proxy Statement for the annual meeting of stockholders to be held on May 3, 2016 (the "2016 Proxy Statement").

We have adopted the Zimmer Biomet Code of Ethics for Chief Executive Officer and Senior Financial Officers (the "finance code of ethics"), a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and Corporate Controller, and other finance organization senior employees. The finance code of ethics is publicly available in the Investor Relations section of our website, which may be accessed from our homepage at www.zimmerbiomet.com or directly at http://investor.zimmerbiomet.com. If we make any substantive amendments to the finance code of ethics or grant any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer, Chief Financial Officer, or Chief Accounting Officer and Corporate Controller, we will disclose the nature of that amendment in the Investor Relations section of our website.

Item 11. Executive Compensation

Information required by this item is incorporated by reference from our 2016 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this item is incorporated by reference from our 2016 Proxy Statement.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information required by this item is incorporated by reference from our 2016 Proxy Statement.

Item 14. Principal Accounting Fees and Services

Information required by this item is incorporated by reference from of our 2016 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) 1. Financial Statements

The following consolidated financial statements of Zimmer Biomet Holdings, Inc. and its subsidiaries are set forth in Part II, Item 8.

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Earnings for the Years Ended December 31, 2015, 2014 and 2013

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2015, 2014 and 2013

Consolidated Balance Sheets as of December 31, 2015 and 2014

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2015, 2014 and 2013

Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014 and 2013

Notes to Consolidated Financial Statements

2. Financial Statement Schedule

Schedule II. Valuation and Qualifying Accounts

Other financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

3. Exhibits

A list of exhibits required to be filed as part of this report is set forth in the Index to Exhibits, which immediately precedes such exhibits and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ZIMMER BIOMET HOLDINGS, INC.

By: /s/ David C. Dvorak
David C. Dvorak
President and Chief Executive Officer

Dated: February 29, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ David C. Dvorak David C. Dvorak	President, Chief Executive Officer and Director (Principal Executive Officer)	February 29, 2016
/s/ Daniel P. Florin Daniel P. Florin	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 29, 2016
/s/ Tony W. Collins Tony W. Collins	Vice President, Finance, and Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)	February 29, 2016
/s/ Christopher B. Begley Christopher B. Begley	Director	February 29, 2016
 Betsy J. Bernard	Director	February 29, 2016
/s/ Paul M. Bisaro Paul M. Bisaro	Director	February 29, 2016
/s/ Gail K. Boudreaux Gail K. Boudreaux	Director	February 29, 2016
/s/ Michael J. Farrell Michael J. Farrell	Director	February 29, 2016
/s/ Larry C. Glasscock Larry C. Glasscock	Director	February 29, 2016
/s/ Robert A. Hagemann Robert A. Hagemann	Director	February 29, 2016
 Arthur J. Higgins	Director	February 29, 2016
/s/ Michael W. Michelson Michael W. Michelson	Director	February 29, 2016
/s/ Cecil B. Pickett, Ph.D. Cecil B. Pickett, Ph.D.	Director	February 29, 2016
/s/ Jeffrey K. Rhodes Jeffrey K. Rhodes	Director	February 29, 2016

INDEX TO EXHIBITS

Exhibit No	Description†
2.1	Agreement and Plan of Merger, dated as of April 24, 2014, by and among Zimmer Holdings, Inc., Owl Merger Sub, Inc. and LVB Acquisition, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed April 30, 2014)
3.1	Certificate of Amendment of Restated Certificate of Incorporation of Zimmer Holdings, Inc., dated June 24, 2015 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed June 26, 2015)
3.2	Restated Certificate of Incorporation of Zimmer Biomet Holdings, Inc., dated June 24, 2015 (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed June 26, 2015)
3.3	Restated By-Laws of Zimmer Biomet Holdings, Inc., effective June 24, 2015 (incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed June 26, 2015)
4.1	Specimen Common Stock certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q filed August 10, 2015)
4.2	Indenture dated as of November 17, 2009 between Zimmer Holdings, Inc. and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to the form filed as Exhibit 4.8 to the Registrant's Registration Statement on Form S-3 filed November 12, 2009) (File No. 333-163043)
4.3	First Supplemental Indenture to the Indenture dated as of November17, 2009 between Zimmer Holdings, Inc. and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed November 17, 2009)
4.4	Form of 4.625% Note due 2019 (incorporated by reference to Exhibit 4.3 above)
4.5	Form of 5.750% Note due 2039 (incorporated by reference to Exhibit 4.3 above)
4.6	Second Supplemental Indenture dated as of November 10, 2011, to the Indenture dated as of November 17, 2009 between Zimmer Holdings, Inc. and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed November 10, 2011)
4.7	Form of 3.375% Note due 2021 (incorporated by reference to Exhibit 4.6 above)
4.8	Third Supplemental Indenture, dated as of March 19, 2015, to the Indenture dated as of November 17, 2009 between Zimmer Holdings, Inc. and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed March 19, 2015)
4.9	Form of 1.450% Notes due 2017 (incorporated by reference to Exhibit 4.8 above)
4.10	Form of 2.000% Notes due 2018 (incorporated by reference to Exhibit 4.8 above)
4.11	Form of 2.700% Notes due 2020 (incorporated by reference to Exhibit 4.8 above)
4.12	Form of 3.150% Notes due 2022 (incorporated by reference to Exhibit 4.8 above)
4.13	Form of 3.550% Notes due 2025 (incorporated by reference to Exhibit 4.8 above)
4.14	Form of 4.250% Notes due 2035 (incorporated by reference to Exhibit 4.8 above)
4.15	Form of 4.450% Notes due 2045 (incorporated by reference to Exhibit 4.8 above)
4.16	Stockholders Agreement, dated as of April 24, 2014, by and among Zimmer Holdings, Inc., LVB Acquisition Holding, LLC, and the other signatories thereto (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed April 30, 2014)
4.17	Amendment No. 1, dated as of March 30, 2015, to Stockholders Agreement, dated as of April 24, 2014, by and among Zimmer Holdings, Inc., LVB Acquisition Holding, LLC and the other signatories thereto (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed April 1, 2015)
10.1*	Zimmer Holdings, Inc. 2001 Stock Incentive Plan (incorporated by reference to Appendix B to the Registrant's definitive Proxy Statement on Schedule 14A filed March 24, 2003)
10.2*	First Amendment to the Zimmer Holdings, Inc. 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed December 15, 2005)
10.3*	Zimmer Holdings, Inc. 2006 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed December 13, 2006)
10.4*	Zimmer Biomet Holdings, Inc. Executive Performance Incentive Plan, as amended May 7, 2013 and further amended as of June 24, 2015 (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed November 9, 2015)

Exhibit No	Description†
10.5*	Amendment to Zimmer Biomet Holdings, Inc. Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed January 7, 2016)
10.6*	Restated Zimmer Biomet Holdings, Inc. Long Term Disability Income Plan for Highly Compensated Employees (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed January 7, 2016)
10.7*	Change in Control Severance Agreement with David C. Dvorak (incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K filed February 28, 2009)
10.8*	Change in Control Severance Agreement with Katarzyna Mazur-Hofsaess (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed August 7, 2013)
10.9*	Form of Change in Control Severance Agreement with Chad F. Phipps (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K filed February 28, 2009)
10.10*	Form of Change in Control Severance Agreement with Daniel P. Florin, Tony W. Collins, Adam R. Johnson, Stuart G. Kleopfer, David A. Nolan, Jr. and Daniel E. Williamson (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed August 10, 2015)
10.11*	Change in Control Severance Agreement with Sang Yi (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed November 9, 2015)
10.12*	Restated Benefit Equalization Plan of Zimmer Holdings, Inc. and Its Subsidiary or Affiliated Corporations Participating in the Zimmer Holdings, Inc. Savings and Investment Program (incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K filed February 28, 2009)
10.13*	First Amendment to the Restated Benefit Equalization Plan of Zimmer Holdings, Inc. and its Subsidiary or Affiliated Corporations Participating in the Zimmer Holdings, Inc. Savings and Investment Program (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed January 7, 2016)
10.14*	Restated Benefit Equalization Plan of Zimmer Holdings, Inc. and Its Subsidiary or Affiliated Corporations Participating in the Zimmer Holdings, Inc. Retirement Income Plan or the Zimmer Puerto Rico Retirement Income Plan (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K filed February 28, 2009)
10.15*	First Amendment to the Restated Benefit Equalization Plan of Zimmer Holdings, Inc. and its Subsidiary or Affiliated Corporations Participating in the Zimmer Holdings, Inc. Retirement Income Plan or the Zimmer Puerto Rico Retirement Income Plan (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed January 7, 2016)
10.16*	Form of Confidentiality, Non-Competition and Non-Solicitation Agreement with U.S.-Based Executive Officers (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed June 26, 2015)
10.17*	Non-Disclosure, Non-Competition and Non-Solicitation Employment Agreement with Stephen Hong Liang, Ooi (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed March 27, 2006)
10.18*	Confidentiality, Non-Competition and Non-Solicitation Agreement with Katarzyna Mazur-Hofsaess (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed August 7, 2013)
10.19*	Confidentiality, Non-Competition and Non-Solicitation Agreement with Sang Yi (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed November 9, 2015)
10.20*	Form of Nonqualified Stock Option Award Letter under the Zimmer Holdings, Inc. 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed January 11, 2006)
10.21*	Zimmer Biomet Holdings, Inc. Amended Stock Plan for Non-Employee Directors, as amended May 5, 2015 and further amended as of June 24, 2015 (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q filed November 9, 2015)
10.22*	Form of Nonqualified Stock Option Award Letter under the Zimmer Holdings, Inc. Stock Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed April 5, 2005)
10.23*	Form of Restricted Stock Unit Award Letter under the Zimmer Biomet Holdings, Inc. Stock Plan for Non-Employee Directors
10.24*	Form of Nonqualified Stock Option Award Letter under the Zimmer Holdings, Inc. 2006 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed December 13, 2006)
10.25*	Form of Nonqualified Stock Option Award Letter for Non-U.S. Employees under the Zimmer Holdings, Inc. 2006 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed December 13, 2006)

Exhibit No	Description†
10.26*	Amended and Restated Zimmer Biomet Holdings, Inc. Deferred Compensation Plan for Non-Employee Directors, as amended May 5, 2015 and further amended as of June 24, 2015 (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q filed November 9, 2015)
10.27*	Zimmer Biomet Deferred Compensation Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed January 7, 2016)
10.28*	Zimmer Biomet Holdings, Inc. 2009 Stock Incentive Plan, as amended May 7, 2013 and further amended as of June 24, 2015 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed November 9, 2015)
10.29*	Form of Nonqualified Stock Option Award Letter under the Zimmer Biomet Holdings, Inc. 2009 Stock Incentive Plan
10.30*	Form of Restricted Stock Unit Award Letter (two-year vesting) under the Zimmer Holdings, Inc. 2009 Stock Incentive Plan (incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K filed February 23, 2015)
10.31*	Form of Performance-Based Restricted Stock Unit Award Letter (three-year performance period) under the Zimmer Biomet Holdings, Inc. 2009 Stock Incentive Plan
10.32*	Form of Indemnification Agreement with Non-Employee Directors and Officers (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 31, 2008)
10.33	Term Loan Agreement ¥11,700,000,000 dated as of May 24, 2012 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed May 31, 2012)
10.34	Letter of Guarantee dated as of May 24, 2012 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed May 31, 2012)
10.35	First Amendment, dated October 31, 2014, to the ¥11,700,000,000 Term Loan Agreement dated as of May 24, 2012 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed November 5, 2014)
10.36	Voting Agreement, dated as of April 24, 2014, by and among Zimmer Holdings, Inc., LVB Acquisition Holding, LLC and the other signatories thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed April 30, 2014)
10.37	Commitment Letter, dated as of April 24, 2014, by and among Credit Suisse Securities (USA) LLC, Credit Suisse AG and Zimmer Holdings, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed April 30, 2014)
10.38	364-Day Credit Agreement, dated as of May 29, 2014, among Zimmer Holdings, Inc., Credit Suisse AG, Cayman Islands Branch, as Administrative Agent, and the lenders named therein (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed June 4, 2014)
10.39	Credit Agreement, dated as of May 29, 2014, among Zimmer Holdings, Inc., Zimmer K.K., Zimmer Investment Luxembourg SARL, the borrowing subsidiaries referred to therein, JPMorgan Chase Bank, N.A., as General Administrative Agent, JPMorgan Chase Bank, N.A., Tokyo Branch, as Japanese Administrative Agent, J. P. Morgan Europe Limited, as European Administrative Agent, and the lenders named therein (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed June 4, 2014)
10.40	Deferred Prosecution Agreement, dated March 26, 2012, between Biomet, Inc. and the United States Department of Justice, Criminal Division, Fraud Section (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed August 10, 2015)
21	List of Subsidiaries of Zimmer Biomet Holdings, Inc.
23	Consent of PricewaterhouseCoopers LLP
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 of the Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit No	Description†
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

† Unless otherwise indicated, exhibits incorporated by reference herein were originally filed under SEC File No. 001-16407.

* Management contract or compensatory plan or arrangement.

SCHEDULE II

ZIMMER HOLDINGS, INC.
VALUATION AND QUALIFYING ACCOUNTS

(in millions)

Description	Balance at Beginning of Period	Additions Charged (Credited) to Expense	Deductions to Reserve	Effects of Foreign Currency	Acquired Allowances	Balance at End of Period
Allowance for Doubtful Accounts:						
Year Ended December 31, 2013	22.8	1.9	(1.5)	(0.5)	–	22.7
Year Ended December 31, 2014	22.7	2.0	(1.4)	(1.0)	–	22.3
Year Ended December 31, 2015	22.3	13.5	(0.4)	(1.3)	–	34.1
Deferred Tax Asset Valuation Allowances:						
Year End December 31, 2013	41.3	1.5	(0.1)	–	–	42.7
Year End December 31, 2014	42.7	74.7	(9.2)	–	14.6	122.8
Year End December 31, 2015	122.8	(53.7)	(5.6)	(1.6)	10.8	72.7