PIONEER POWER SOLUTIONS, INC.
Form 10-K
April 02, 2018

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

FORM 10-K

(Mark One)

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

For the fiscal year ended: December 31, 2017

or

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

For the transition period from _____ to _____

Commission file number: 333 – 155375

PIONEER POWER SOLUTIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**27 - 1347616**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

400 Kelby Street, 12th Floor
Fort Lee, New Jersey 07024
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(212) 867 - 0700**

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $.001 per share	Nasdaq Stock Market LLC (Nasdaq Capital Market)

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 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 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 check mark 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.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based on the price at which the common equity was last sold on the Nasdaq Capital Market on such date, was approximately $26.4 million. For purposes of this computation only, all officers, directors and 10% or greater stockholders of the registrant are deemed to be affiliates.

As of April 2, 2018, 8,726,045 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2018 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2017.

PIONEER POWER SOLUTIONS, INC.

Form 10-K

For the Fiscal Year Ended December 31, 2017

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains "forward-looking statements," which include information relating to future events, future financial performance, financial projections, strategies, expectations, competitive environment and regulation. Words such as "may," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "fu "intends," "plans," "believes," "estimates," and similar expressions, as well as statements in future tense, identify forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and may not be accurate indications of when such performance or results will be achieved. Forward-looking statements are based on information we have when those statements are made or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- General economic conditions and their effect on demand for electrical equipment, particularly in the commercial construction market, but also in the power generation, industrial production, data center, oil and gas, marine and infrastructure industries.

- The effects of fluctuations in sales on our business, revenues, expenses, net income, income (loss) per share, margins and profitability.

- Many of our competitors are better established and have significantly greater resources, and may subsidize their competitive offerings with other products and services, which may make it difficult for us to attract and retain customers.

- We depend on Siemens Industry, Inc. ("Siemens") and Hydro Quebec for a large portion of our business, and any change in the level of orders from Siemens or Hydro Quebec could have a significant impact on our results of operations.

- The potential loss or departure of key personnel, including Nathan J. Mazurek, our chairman, president and chief executive officer.

- Our ability to expand our business through strategic acquisitions.

- Our ability to integrate acquisitions and related businesses.

- Our ability to generate internal growth, maintain market acceptance of our existing products and gain acceptance for our new products.

-

- Unanticipated increases in raw material prices or disruptions in supply could increase production costs and adversely affect our profitability.

- Restrictive loan covenants and/or our ability to repay or refinance debt under our credit facilities could limit our future financing options and liquidity position and may limit our ability to grow our business.

- Our ability to realize revenue reported in our backlog.

- Operating margin risk due to competitive pricing and operating efficiencies, supply chain risk, material, labor or overhead cost increases, interest rate risk and commodity risk.

- Strikes or labor disputes with our employees may adversely affect our ability to conduct our business.

- A significant portion of our revenue and expenditures are derived or spent in Canadian dollars. However, we report our financial condition and results of operations in U.S. dollars. As a result, fluctuations between the U.S. dollar and the Canadian dollar will impact the amount of our revenues and net loss.

- The impact of geopolitical activity on the economy, changes in government regulations such as income taxes, duties and tariffs on the importation of products we sell into the United States, climate control initiatives, the timing or strength of an economic recovery in our markets and our ability to access capital markets.

- Our chairman controls a majority of our voting power, and may have, or may develop in the future, interests that may diverge from yours.

- Material weaknesses in internal controls.

- Future sales of large blocks of our common stock may adversely impact our stock price.

- The liquidity and trading volume of our common stock.

The foregoing does not represent an exhaustive list of matters that may be covered by the forward-looking statements contained herein or risk factors that we are faced with that may cause our actual results to differ from those anticipated in our forward-looking statements. Moreover, new risks regularly emerge and it is not possible for us to predict or articulate all risks we face, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. Except to the extent required by applicable laws or rules, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. You should review carefully the risks and uncertainties described under the heading “Item 1A. Risk Factors” in this Annual Report on Form 10-K for a discussion of the foregoing and other risks that relate to our business and investing in shares of our common stock.

PART I

ITEM 1. BUSINESS

Overview

Pioneer Power Solutions, Inc. and its subsidiaries ("Pioneer," "we," "us," "our," or "the Company") manufactures, sells and services a broad range of specialty electrical transmission, distribution and on-site power generation equipment for applications in the utility, industrial, commercial and backup power markets. Our principal products and services include custom-engineered electrical transformers and engine-generator sets and controls, complemented by a national field-service network to maintain and repair power generation assets. We are headquartered in Fort Lee, New Jersey and operate from thirteen (13) additional locations in the U.S., Canada and Mexico for manufacturing, service, centralized distribution, engineering, sales and administration.

Our largest customers include a number of recognized national and regional utilities, industrial companies and engineering, procurement and construction firms located in North America. In addition, we sell our products through hundreds of electrical distributors served by our network of stocking locations throughout the U.S. and Canada. We intend to grow our business through internal product development, expansion of our sales force coverage and through acquisitions to increase the scope and relevance of highly-engineered solutions and technical service we offer our customers for their specific electrical applications.

Description of Business Segments

In 2017, we had two reportable segments: Transmission & Distribution Solutions ("T&D Solutions") and Critical Power Solutions ("Critical Power").

- Our T&D Solutions business provides equipment solutions that help customers effectively and efficiently manage their electrical power distribution systems to desired specifications. Electrical transformers are the primary product of this reporting segment. These solutions are marketed principally through our Pioneer Transformers Ltd. ("PTL"), Jefferson Electric, Inc. ("Jefferson"), and Bemag Transformers, Inc. ("Bemag").

- Our Critical Power business provides customers with sophisticated power generation equipment and an advanced data collection and monitoring platform, the combination of which is used to ensure smooth, uninterrupted power to operations during times of emergency. These solutions are marketed by our operations headquartered in Minnesota, currently doing business under the Titan Energy Systems Inc. ("Titan") brand name.

T&D Solutions Segment

We design, develop, manufacture and sell a wide range of electrical transmission and distribution equipment and our emphasis is to provide custom engineered, manufactured-to-order solutions, which we estimate currently represents over two-thirds of our T&D revenue. We believe that demand for our custom solutions is driven primarily by end user maintenance programs to repair, replace or retrofit aging equipment, as well as to upgrade or expand their electrical distribution systems to accommodate growth and other changes in their operations. In addition, a significant portion of our custom solutions revenue is derived from the production of magnetic subassemblies incorporated by original equipment manufacturers ("OEMs") into the systems they sell, systems which in the case of our customers are principally being used for data center, elevator control and electric drive applications. The remainder of our T&D Solutions revenue is derived from our catalogue of standard transformer designs, models which are sold primarily

through electrical distributors and to brand label customers. These products are manufactured to stock and are used in general purpose electrical applications, with demand being driven by the overall pace of new commercial construction.

We distinguish ourselves by producing a wide range of engineered-to-order and standard equipment, sold either directly to end users, through manufacturers' representatives and engineering and construction firms or through electrical distributors. We serve customers in a variety of industries including electric utilities, industrial customers, OEMs, commercial firms, contractors and renewable energy producers.

Summary of T&D Segment Offerings

Product Category	Solutions
Liquid-filled Transformers	Small & medium power: substation class units for utilities and large industrial applications
	Padmount: used in utility distribution networks, underground and in renewable projects
	Network: Subway/vault-type units used to ensure reliability of utility service
	Unitized Padmount: an equipment combination used in place of a conventional substation
	Others: mini-pad, platform-mount and other specialty low voltage designs
Dry-Type Transformers	Medium voltage & power-dry: custom-designed for applications where a liquid-filled transformer is not suitable for safety concerns and/or other constraints
	OEM: custom designed and manufactured magnetic components and subassemblies incorporated by customers into their product offering
	Power quality: harmonic-eliminating and mitigating transformers, passive filters, K-factor, control, drive isolation and other magnetically-driven power quality solutions
	Low voltage standard: catalogue of ventilated, encapsulated and other designs sold to electrical distributors and brand label customers for general purpose electrical loads
	Low voltage custom: quick-turn, low voltage distribution transformers manufactured to customer electro-mechanical specifications

Overview of Electrical Transformers

Our liquid-filled and dry-type power, distribution and specialty electrical transformers are magnetic products used in the control and conditioning of electrical current for critical processes. An electric transformer is used to increase or decrease the voltage of electricity traveling through a power line. This change in voltage is accomplished by transferring electric energy from one internal coil or winding to another coil or winding through electromagnetic induction. Electric power generating plants use transformers to “step-up,” or increase, voltage that is transferred through power lines in order to transmit the electricity more efficiently over long distances. When high voltage electricity nears its final destination, a “step-down” transformer reduces its voltage. A distribution transformer makes a final step-down in voltage to a level usable in businesses and homes.

Transformers are integral to every electrical transmission and distribution system. Electric utilities use transformers for the construction and maintenance of their power networks. Industrial firms use transformers to supply factories with electricity and to distribute power to production machinery. The renewable energy industry uses transformers to connect new sources of electricity generation to the power grid. The construction industry uses transformers for the supply of electricity to new homes and buildings and original equipment manufacturers use custom transformers as a component part of their systems.

We manufacture liquid-filled transformers at our facility in Granby, Quebec. Liquid-filled transformers are typically used for applications handling utility or industrial-level electrical loads, such as in a substation, and are most commonly found in outdoor settings given the risk of leakage and the flammable properties of the liquid coolant, typically mineral oil. We manufacture these products in electrical power ranges from 25 kVA (kilovolt amperes) to 30 MVA (megavolt amperes) and at up to 69 kV (kilovolts) in voltage. In recent years, we have focused primarily on the small power market, generally considered to include transformers between 1 MVA and 10 MVA, as well as on specialty transformers such as network and submersible designs used by utilities to withstand harsh environments and ensure reliability of service. We sell these products to electrical utilities, independent power providers, electrical co-ops, industrial companies, commercial users and electric equipment wholesalers. Our liquid-filled transformers are designed and manufactured specifically to a customer order.

We manufacture dry-type transformers and custom magnetics at our facility in Reynosa, Mexico. The largest and longest-standing component of our dry-type transformer revenue consists of low voltage, standard distribution units sold from our catalogue of over 1,000 designs. These units are typically used indoors to handle general loads for powering commercial and industrial machinery and equipment requiring 50 VA (volt amperes) through 1 MVA of power transformation capacity in voltages at or below 600 V (volts). In recent years, we have focused primarily on custom-engineered solutions – including equipment for OEM applications, and transformers in the medium voltage and power-dry product classes where our range extends to 10 MVA and to 35 kV in voltage. Medium voltage and power-dry transformers are conventionally used for indoor applications and in metropolitan areas, and are increasingly being used outdoors and indoors for commercial, industrial, manufacturing and production process applications. They are engineered to meet the most onerous duty requirements and are well-suited to operate in harsh environmental conditions, a situation which occurs frequently when the transformer needs to be installed close to the area where the power will ultimately be used, such as in down-hole mining or on drilling rigs.

We also offer a broad array of magnetically-driven solutions to ensure clean power and eliminate potential issues caused by harmonics and transients, including proprietary solutions that incorporate our patented technology through the use of power electronics. Our power quality solutions are for use in industrial, commercial and institutional settings where sensitive automation equipment is being used and clean, efficient power is required.

Critical Power Segment

Our Critical Power segment is engaged in designing, manufacturing, selling, commissioning and aftermarket service of onsite power generation and control equipment. Our systems are used to maintain reliable emergency standby power at facilities where it is either required or where the potential consequences of a power outage make it necessary – such as at data centers, hospitals, communications facilities, factories, national retailers, military sites, office complexes and other critical operations.

Depending on the needs of our customers, we offer our solutions on a complete equipment package basis, or as a standalone equipment or service solution that addresses one or more requirements of an overall power project. We believe that our value proposition to customers is differentiated by our use of advanced communications and automated data collection technologies to provide a highly-sophisticated remote monitoring, automated control and reporting platform to our customers.

During the fourth quarter of 2017, as part of our review of strategic alternatives, we made the decision to sell our switchgear business operated by Pioneer Custom Electric Products, Inc. (“PCEP”), which was part of T&D Solutions segment, and have entered into a non-binding letter of intent for the sale.

Product Category	Solutions
Power Generation Equipment	Engine-generator sets: power generation equipment with up to 2 MW of power output per genset, sourced from several manufacturers. Available individually or in multi-unit paralleled configurations. Fuel options include natural gas, diesel and bi-fuel.
	Uninterruptible Power Supply (UPS) systems
	Proprietary technology solutions: GenMax®
Service	Scheduled preventative maintenance, and 24/7 repair and support services provided for all makes and models of equipment under one to five year contracts
	Regional service: provided by our technicians in the Midwest and Florida
	National service: provided by our technicians and network of field service providers throughout the United States for multi-site, multi-state power generation equipment owners
	UPS systems from major manufacturers
Remote Monitoring	Proprietary real-time remote monitoring, metering and control system for onsite power sources and associated equipment
	Comprehensive asset management solution, including automated audit and inventory tracking and reporting services
	Scalable solution, ideally-suited to large customers owning critical power systems across multiple locations

Power Generation Equipment

We provide our industrial and commercial customers with a variety of power generation equipment and fuel options which, depending on their needs and applications, can range from several kilowatts to 2 MW of output per genset. We excel in projects requiring multiple gensets in side-by-side arrangements that are paralleled for synchronous operation.

We sell power generation equipment made by several manufacturers. In order to more competitively serve our customers, we regularly provide Pioneer-manufactured power distribution equipment to each project, including transformers. We also offer niche solutions such as GenMax® – our proprietary harmonic suppression technology that resolves power reliability and genset capacity issues frequently encountered when new gensets are introduced to a system of existing gensets, where the make, model, pitch and power output of the gensets within the system are different.

To fully meet the onsite power reliability needs of our customers, we realize a small portion of our revenue from the sale of uninterruptible power supply (UPS) systems. UPS systems are used by data-intensive businesses to provide battery backup power to servers until the emergency backup genset(s) come online. Once the gensets are producing proper voltage and frequency, the UPS switches the load onto the gensets. For UPS system sales, we are an authorized service provider for GE and also an authorized dealer for Toshiba.

Service

Power generation systems represent considerable investments that require proper maintenance and service in order to operate reliably during a time of emergency. Our power maintenance programs provide preventative maintenance, repair and support service for our customers' poweron

Improve cash flow

Productivity gains
Phase #2
Execution
2012
2013-2014
9

Executing
on
Our
Priorities

Good
progress

Successfully executing Vital Few initiatives
Exited Deferred Prosecution Agreement (DPA)
Demonstrated ability to grow Foot & Ankle above market through 3Q 12
three consecutive quarters of accelerating global foot & ankle growth
Focus
on
reducing
inventories
-
has
brought
increased
cash
flow
generation
in
2012
Completed conversion of major portion of U.S. Foot & Ankle territories to direct
Increased
foot
and
ankle
medical
education
and
R&D

1,360
physicians
trained through 3Q 2012, surpassing goal of training 1,200 for 2012
Next steps:

Narrow focus and improve execution of OrthoRecon activities

Productivity gains

Improve long-term growth, cash flow, margins
10

New Strategic Focus. Building on Solid Fundamentals.
The platforms
The future
The strategy
11
T
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S

Two Fundamentally Solid Platforms
1. Extremities

Extremity hardware

Biologics

Comprehensive portfolio
Strong R&D
Focused sales force
12

THEMARK

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Focused on Most Attractive Segment of Extremities Market
Upper
Extremity
$2.3B

27,000
surgeons
Foot and
Ankle
$1.4B

7,500
surgeons and
podiatrists
Breakdown of $3.7B
U.S. Extremities Market
More concentrated call point
Complex treatment issues,
less mature products

need innovative solutions

significant mix opportunity
Strong growth drivers

trauma

osteoarthritis

diabetes

obesity
High
margin
Underpenetrated market

significant opportunity for
int l expansion
Foot & Ankle: An Attractive
Segment
Source: 2011 Millennium Research Group, Management Estimates
13

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:
Most Comprehensive Foot and Ankle Product Portfolio
CHARLOTTE®
CLAW®
3.5mm Implant
BIOFOAM®
Wedge
LIS FRANC
Plate
ORTHOSPHERE®
Implant
SWANSON
Hammer Toe Implant
CHARLOTTE®
Snap-Off Screw
GRAFTJACKET®
Regenerative Tissue
Matrix
LPT®
Toe Implant
DARCO®
BOW®
Plate
BIOARCH®
Implant
ENDO-FUSE®
Rods and Beams
CHARLOTTE®
Compression
CHARLOTTE®
CLAW®
2.7mm Implant
DART-FIRE®
Screws
CHARLOTTE®
3.0 MUC Screw
DARCO®
Screws
SWANSON
Great Toe
DARCO®
RPS Plate
DARCO®
MPJ Plate
DARCO®
LPS Plate
DARCO®
DPS Plate

ORTHOLOC
Plate
CHARLOTTE ®
7.0 MUC Screw
AM
Surgical
Endoscopic
Blade
SIDEKICK®
Stealth
Fixation
CORETRAK®
Tube Fixator
SIDEKICK®
Fixation
VALOR®
NAIL
Fixation
PRO-TOE
Hammer Toe Fixation
INBONE®
Total Ankle
14
CHARLOTTE®
Jones Fracture
Screw
ORTHOLOC
Plate
DARCO®
PIA Plate

2006
29 Products
2007
46 Products
2008
56 Products
70 Products

2010
S
T
R
E
N
G
T
H
S
:
Strong Record of Launching Innovative Products
64 Products
2009

Recognized leader in Foot & Ankle

Opportunity to increase R&D

Improve new product cadence
~ 80+ Products
2011-2012
15

2007
2008
2011
2006
1
Number of Foot & Ankle Focused Sales Reps
2009

2010
S
T
R
E
N
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T
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S
:
Built the Largest Dedicated Foot & Ankle Sales Force in the US
~200
Opportunity for increasing sales rep productivity
125
~70%
Indirect

~30%
Direct
16

Completed Conversion of Major Portion of U.S. Foot and Ankle
Territories to Direct Sales Representation
S
T
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H
Maximize the Foot and Ankle Opportunity
Goal: Exit 2012 well above market growth rates
17
Opportunity for increased
sales rep productivity
More efficient inventory
management
Improved pricing processes
2012
~200
Benefits of Direct Sales
~20%
Indirect
2011
~200
~70%
Indirect
~30%
Direct
~80%
Direct

S
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Multiple Factors Driving Extremities Growth

Market growth in foot and ankle

Recently launched products including:

PRO-TOE
VO
Hammertoe Fixation System

INBONE
®
II
Total Ankle Replacement System

PROPHECY
®
INBONE
®
Pre-Pre-Operative Navigation
Alignment Guides

ORTHOLOC
3Di
Ankle Fracture System and
Foot Reconstruction Plating System

CLAW
®
II
Polyaxial Compression Plating System

QUICKDRAW
Knotless Soft Tissue Fixation System

More new products planned in 2012

Increased number of surgeons trained

1,360 surgeons trained +113% vs 2011
Surpassed target of ~1,200
18
Our Goal
Above-market
growth in Foot & Ankle

Two Fundamentally Solid Platforms

Global distribution network
Innovative technologies
2. Ortho-Recon

Hips

Knees
19

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Slower Growth, Stable Customer Base
$12B Ortho-Recon
Worldwide Market
Our Focus

Customer satisfaction

Efficiency

Cash flow generation
Source: 2011 Millennium Research Group, Management Estimates
20

Innovative Hip Portfolio

Fast
recovery
instrument
systems
(4,5)

Modular hip systems

Comprehensive acetabular systems
S
T
R
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S
Portfolio
of
Innovative
Primary
Knee
and
Hip
Products

Examples
EVOLUTION
®
Knee System

Launched in 2010

Medial-pivot design mimics healthy knee kinematics

Patient benefits:

stable,
(1)
quiet,
(2)
natural motion
(3)
1
Data on file
2
Anderson M. Patello-femoral complications after posterior-stabilized total knee arthroplasty: a comparison of two different imp
3
Freeman M. The movement of the normal tibiofemoral joint. J Biomechanics. 2005;38:197-208.
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Penenberg
BL,
Bolling
WS,

Riley
M.
Percutaneously
assisted
total
hip
arthroplasty
(PATH):
a
preliminary
report.
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Bone
Joint
Surg
Am.
Nov
2008;
90
Suppl
4:209-220
5
Penenberg BL, Van Winkle GN, Schoch EP, Isaacson J, Batts J. Early Clinical Outcomes in THA Patients Implanted via Mini-
Assisted Technique. Mid America Orthopaedic Association. 2009:Poster 21
21

Italy

France

Germany

Australia
S
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S
Strong Global Sales Coverage

United States

Japan

Canada

United Kingdom

80 international stocking distributors

Over 1,100 sales representatives
Direct sales in major markets
Distributors in 60+ countries
22

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T
E
G

I
C F
O
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Multiple Initiatives Driving Improved Efficiency

Focused R&D spend, product
line optimization

Targeted sales & marketing
efforts

Improved inventory &
instrument management

Streamline international
distribution network
Our Goal
Improve cash
generation,
High level of customer
satisfaction
23

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New Strategic Focus. Building on Solid Fundamentals.

The platforms
The future
The strategy
24

Building the New Wright Medical
25
Wright Medical
Past
Future
Foot & Ankle
business

Growth
Above-
market growth
Ortho-
Recon business
Growth
Efficiency, cash flow
Cash flow
Low
High
Operating margin
Single digit
double digit
Mid-

1 Amounts presented are as reconciled on

the
Company s
website,
www.wmt.com
-
Corporate
Investor
Info
2
Midpoint of guidance range communicated on 11/5/2012. The fact that we include these projections in this presentation should
continue to be our projections as of any subsequent date.
3
2012 adjusted EPS guidance range communicated on 11/5/2012. The fact that we include these projections in this presentation
amounts continue to be our projections as of any subsequent date.
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W
Significant Investment in 2012 to Drive Transformational Change
26
Net Sales
($M)
EPS
(1)
(Adjusted, incl. stock-based
expense)

Conversion to
increased direct U.S.
foot & ankle sales

representation

Investment in R&D,
Medical Education

Currency headwinds
Free Cash Flow
(1)
($M)

Lower levels of Capex
spending

Improved inventory
management
$519M
$513M
$480M
$0.70
$0.69
$24m
$15m
$48m
$0.16 to
$0.22
~
~

Strong Balance Sheet, Cash Flow to Improve

Cash and marketable
securities: $317.6M

Net debt: $0

Free cash flow $11.9M
in 3Q 12

Improve inventory
levels
27
targeting significant
increase to $45M-$50M
in 2012
Cash Flow
Balance Sheet
(9/30/2012)
Improved cash flow
a new strategic priority

Summary of Convertible Offering Closed on 8/31/12
Issuer
Wright Medical Group
Size
$300,000,000 (including over allotment option)
Maturity
5 years

Ranking
Senior Unsecured
Coupon
2.00%
Conversion Premium
27.5%
Hedge and Warrant
Transactions
In connection with pricing of the Notes, Company entered into privately negotiated convertible note hedge transactions with certain financial institutions ("Option Counterparties") to reduce its exposure under the Notes to future increases in the price of the Company's common stock. Company also entered into separate privately negotiated warrant transactions with the Option Counterparties, and warrants have an exercise price that is 50.00% higher than the last reported sale
price of the
Company's common stock of $19.95 per share on August 22, 2012.
Use of Net Proceeds
Net proceeds of approximately $289 million were used as follows:
Approximately
$130 million to repay outstanding term loan; approximately $56 million to fund related convertible note hedge transactions; approximately $25 million of repurchases of convertible senior notes due 2014; and remaining to be used for general corporate purposes which include possible acquisitions
Sole Bookrunner and
Stabilization Agent
J.P. Morgan
Overview of Convertible Offering
28

Wright Medical 3-5 Years Out

#1 in customer satisfaction

Global market leader in Foot and Ankle

Ortho-Recon
a lean, focused business

Switch Extremities-Biologics / Ortho-Recon mix
from current 40:60 to 60:40

More balanced geographic revenue mix

Strong free cash flow

fueling strategic acquisitions

Improved operating margins
29

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New Strategic Focus. Building on Solid Fundamentals.
The Strategy
The Strategy
The Platform
The Platform
The Future
The Future
New strategic focus

Early stages of executing three-point plan
Building on two solid businesses

Both have long track record, innovative products
Clear goal
improved performance

Performance profile to improve as strategy gains traction
30

Wright Medical Group and
BioMimetic Therapeutics Enter
into Agreement to Combine
Businesses
November 19, 2012

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BioMimetic Therapeutics, Inc.

Publicly traded (NASDAQ: BMTI) regenerative medicine company focused on products to **promote the healing** of musculoskeletal injuries and diseases

Headquarters in Franklin, TN; 50 employees

All **Augment** ®
branded products are based upon recombinant human platelet-derived growth factor (rhPDGF-BB)
a synthetic copy of one of the body's principal agents to stimulate and direct healing and regeneration

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BioMimetic Therapeutics, Inc.

Deal structure

Upfront purchase price payment of $190M, of which ~$140M is in Wright stock

Upfront cash payment financed through cash on hand

Additional milestone-based contingent payments of $190M paid in cash:

~$100M upon approval of Augment® Bone Graft

~$45M upon achievement of 1st revenue milestone of $40M TTM sales for all BMTI products

~$45M upon achievement of 2nd revenue milestone of $70M TTM sales for all BMTI products

Two sales milestone payments cannot be made sooner than 24 and 36 months post-closing

Impact on Wright s earnings

GAAP EPS: cannot yet assess impact on future GAAP earnings until purchase price allocation and fair value of contingent consideration is finalized at closing

Adjusted EBITDA: dilutive until second full-year post-FDA approval of Augment Bone Graft; accretive thereafter

Subject to customary closing conditions and BMTI shareholder approval, transaction expected to close in 1Q 13

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Why BioMimetic?

BioMimetic
transaction
fits
perfectly

with
strategy
to
grow
foot
and
ankle

BioMimetic transaction expected to accelerate transformation of Wright business to 60% Extremities and 40% OrthoRecon

Augment
®
Bone Graft gross margin expected to be better than current gross margin of Wright s Extremities segment

Augment Bone Graft anticipated to be significantly less inventory and capital expenditure intensive than current hardware product lines

BioMimetic s technology, including Augment Bone Graft, is clinically differentiated

Provides future opportunities in both bone repair and soft tissue applications

Can turn Wright s biologics business into high-growth business and drive growth for years to come

If approved, Augment Bone Graft will be first clinically proven protein therapeutic to come to orthopaedics market in a decade

Brings team of talented people with substantial experience in R&D, clinical and regulatory that we believe will be significant competitive advantage
Further accelerate growth opportunities in Extremities business

Augment
®
Bone Graft

Combination of two components: recombinant
human platelet-derived growth factor (rhPDGF)
and beta-tricalcium (ß-TCP)

PDGF stimulates body s healing response at a bony site

ß-TCP fills gap between bone surfaces and acts as scaffold for new bone formation

Well-established mechanism of action shown in preclinical studies to:

induce formation of new blood vessels (angiogenesis)

PDGF proven to attract cells to repair site (chemotaxis)

Stimulate proliferation of cells (mitogenesis) during early states of tissue healing

mechanism of action does not involve differentiation of local cells into bone forming cells and therefore avoids unwanted bone formation in surrounding tissues observed with BMP-based products

Designed to be placed directly into an open surgical site for hindfoot or ankle fusions

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Augment
®
Bone Graft: U.S. IDE Clinical Trial

Randomized, controlled, prospective, multicenter IDE clinical trial one of the

largest performed to date in North America

414 patients treated, of which 272 patients received Augment Bone Graft

June 2012: BMTI submitted PMA amendment to FDA and product is currently pending final regulatory decision

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therapeutic to come to orthopaedic market in a decade first

If approved, Augment Bone Graft will be clinically proven protein

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BioMimetic is an Excellent Fit

Can significantly accelerate strategy of building world-class biologics platform and growing foot & ankle business at well above market growth rates

Estimated market opportunity of approximately $300M in U.S. for hindfoot and ankle fusion procedures

If approved, Augment® Bone Graft provides unique solution for U.S. hindfoot and ankle fusion market that leverages distribution capabilities of Wright s dedicated foot & ankle sales organization and physician training capabilities

Adds new biologics platform and pipeline to further accelerate growth opportunities in Wright s Extremities business

Can provide future opportunities in bone repair and soft tissue applications that can drive growth for years to come

For additional information, please contact:
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Chief Communications Officer
julie.tracy@wmt.com
(901) 290-5817
www.wmt.com
NASDAQ: WMGI

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Investor Presentation
November 27, 2012

Additional Information about the Transaction and Where to Find It

This communication is being made in respect of the proposed merger transaction involving Wright and BioMimetic. In connection with the proposed transaction, Wright intends to file with the SEC a registration statement on Form S-4, which will include a proxy statement/prospectus and other relevant materials in connection with the proposed transaction, and each of Wright and BioMimetic intend to file with the SEC other documents regarding the proposed transaction. The proxy statement/prospectus and this filing are not offers to sell Wright securities and are not soliciting an offer to buy Wright securities in any state where the offer and sale is not permitted. The final proxy statement/prospectus will be mailed to the stockholders of BioMimetic. INVESTORS AND SECURITY HOLDERS OF BIOMIMETIC ARE URGED TO READ THE PROXY STATEMENT/PROSPECTUS (INCLUDING ANY AMENDMENTS OR SUPPLEMENTS THERETO) AND THE OTHER RELEVANT MATERIAL CAREFULLY IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT WRIGHT AND BIOMIMETIC AND THE PROPOSED TRANSACTION.

The proxy statement/prospectus and other relevant materials (when they become available), and any and all documents filed with the SEC, may be obtained free of charge at the SEC s web site at *www.sec.gov*. In addition, investors and security holders may obtain free copies of the documents filed with the SEC by Wright by directing a written request to Wright Medical Group, Inc., 5677 Airline Road, Arlington, TN 38002, Attention: Investor Relations, and by BioMimetic by directing a written request to BioMimetic Therapeutics, Inc., 389 Nichol Mill Lane, Franklin, TN 37067, Attention: Investor Relations. In addition, investors and security holders may obtain free copies of the documents filed with the SEC by Wright by going to Wright s investor information web site at http://phx.corporate-ir.net/phoenix.zhtml?c=129751&p=irol-irhome and by BioMimetic by going to BioMimetic s investor information web site at http://investor.biomimetics.com/phoenix.zhtml?c=196896&p=irol-sec.

Participants in Solicitations

BioMimetic and its respective executive officers and directors and other persons, including Wright and its respective executive officers and directors, may be deemed to be participants in the solicitation of proxies from its stockholders in connection with the proposed transaction. Information about the executive officers and directors of BioMimetic and their ownership of BioMimetic common stock is set forth in its annual report on Form 10-K for the year ended December 31, 2011, filed with the SEC on March 13, 2012 and the proxy statement for BioMimetic s 2012 annual meeting of stockholders, filed with the SEC on April 27, 2012. Information about the executive officers and directors of Wright is set forth in its annual report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 24, 2012 and the proxy statement for Wright s 2012 annual meeting of stockholders, filed with the SEC on March 27, 2012. Certain directors and executive officers of BioMimetic and other persons may

have direct or indirect interests in the merger due to securities holdings, pre-existing or future indemnification arrangements and rights to severance payments if their employment is terminated prior to or following the transaction. If and to the extent that any of the BioMimetic participants will receive any additional benefits in connection with the transaction, the details of those benefits will be described in the proxy statement/prospectus relating to the transaction. Investors and security holders may obtain additional information regarding the direct and indirect interests of BioMimetic and its executive officers and directors in the transaction by reading the proxy statement/prospectus regarding the transaction when it becomes available.

Forward-Looking Statements

This filing may contain forward-looking statements as defined under U.S. federal securities laws. These statements reflect management s current knowledge, assumptions, beliefs, estimates, and expectations and express management s current view of future performance, results, and trends. Forward looking statements may be identified by their use of terms such as anticipate, believe, could, estimate, expect, intend, may, plan, predict, project, will, and other similar terms. Forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to materially differ from those described in the forward-looking statements. In addition to those described below, forward looking statements contained in this filing include, without limitation, statements concerning the possibility of FDA approval of Augment Bone Graft, statements regarding market acceptance of, and expected annual market demand for Augment Bone Graft, statements regarding the expected impact of the transaction with BioMimetic on Wright s adjusted EBITDA and other financial results, and statements about the timing and expected benefits of the transaction. The reader should not place undue reliance on forward-looking statements. Such statements are made as of the date of this filing, and Wright undertakes no obligation to update such statements after this date. In addition to those described above, risks and uncertainties that could cause Wright s actual results to materially differ from those described in forward-looking statements are discussed in Wright s filings with the Securities and Exchange Commission (including those described in Item 1A of Wright s Annual Report on Form 10-K for the year ended December 31, 2011 and Wright s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, in each case under the heading Risk Factors and elsewhere in such filings). By way of example and without implied limitation, such risks and uncertainties include: the failure of BioMimetic stockholders to adopt the merger agreement or the failure of either Wright or BioMimetic to meet any of the other conditions to the closing of the transaction; the failure to realize the anticipated benefits from the transaction or delay in realization thereof; future actions of the United States Attorney s office, the FDA, the Department of Health and Human Services or other U.S. or foreign government authorities that could delay, limit or suspend Wright s development, manufacturing, commercialization and sale of products, or result in seizures, injunctions, monetary sanctions or criminal or civil liabilities; any actual or alleged breach of the Corporate Integrity Agreement to which Wright is subject through September 2015 which could expose Wright to significant liability including exclusion from Medicare, Medicaid and other federal healthcare programs, potential criminal prosecution, and civil and criminal fines or penalties; adverse outcomes in existing product liability litigation; new product liability claims; inadequate insurance coverage; the possibility of private securities litigation or shareholder derivative suits; demand for and market acceptance of Wright s new and existing products; potentially burdensome tax measures; lack of suitable business development opportunities; product quality or patient safety issues; challenges to Wright s intellectual property rights; geographic and product mix impact on Wright s sales; Wright s inability to retain key sales representatives, independent distributors and other personnel or to attract new talent; inventory reductions or fluctuations in buying patterns by wholesalers or distributors; inability to realize the anticipated benefits of restructuring initiatives; negative impact of the commercial and credit environment on Wright, Wright s customers and Wright s suppliers; and the potentially negative effect of Wright s ongoing compliance enhancements on Wright s relationships with customers, and on Wright s ability to deliver timely and effective medical education, clinical studies, and new products.