BIOMET INC
Form 10-K
July 30, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended May 31, 2007.

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 No. 0-12515.

(Exact name of registrant as specified in its charter)

Indiana	**35-1418342**
(State of incorporation)	***(IRS Employer Identification No.)***
56 East Bell Drive, Warsaw, Indiana	**46582**
(Address of principal executive offices)	***(Zip Code)***

(574) 267-6639

(Registrant s telephone number, including area code)

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

Title of Each Class	**Name of Each Exchange on which registered**
Common Shares	The NASDAQ Stock 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 þ

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 þ

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 þ 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 a check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filers and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

Indicate by checkmark whether the registered is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

The aggregate market value of the Common Shares held by non-affiliates of the registrant, based on the closing price of the Common Shares on November 30, 2006, as reported by The Nasdaq Stock Market, was approximately $8,777,842,305. As of July 24, 2007, there were 245,836,352 Common Shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Not applicable.

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the U.S. federal securities laws. Statements that are not historical facts, including statements about the Company s beliefs and expectations, are forward-looking statements. Forward-looking statements include statements generally preceded by, followed by or that include the words believe, could, expect, intend, may, anticipate, plan, predict, potential, estimate or similar expressions. These statements include, but are not limited to, statements related to: the timing and number of planned new product introductions; the effect of anticipated changes in the size, health and activities of population on demand for the Company s products; assumptions and estimates regarding the size and growth of certain market segments; the Company s ability and intent to expand in key international markets; the timing and anticipated outcome of clinical studies; assumptions concerning anticipated product developments and emerging technologies; the future availability of raw materials; the anticipated adequacy of the Company s capital resources to meet the needs of the Company s business; the Company s continued investment in new products and technologies; the ultimate marketability of products currently being developed; the ability to implement successfully new technologies; future declarations of cash dividends; the Company s ability to sustain sales and earnings growth; the Company s goals for sales and earnings growth; the Company s success in achieving timely approval or clearance of the Company s products with domestic and foreign regulatory entities; the stability of certain foreign economic markets; the impact of anticipated changes in the musculoskeletal industry and the Company s ability to react to and capitalize on those changes; the Company s ability to take advantage of technological advancements; the Company s ability to successfully implement desired organizational changes; and the impact of the Company s managerial changes.

Forward-looking statements reflect the Company s current expectations and are not guarantees of performance. These statements are based on the Company s management s beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to these forward-looking statements include, among others, assumptions regarding demand for the Company s products, expected pricing levels, raw material costs, the timing and cost of planned capital expenditures, expected outcomes of pending litigation, the solvency of the Company s insurers and the ultimate resolution of allocation and coverage issues with those insurers, competitive conditions and general economic conditions. Readers of this report are cautioned that reliance on any forward-looking statement involves risks and uncertainties. Although the Company believes that the assumptions on which the forward-looking statements contained herein are based are reasonable, any of those assumptions could prove to be inaccurate given the inherent uncertainties as to the occurrence or nonoccurrence of future events. There can be no assurance that the forward-looking statements contained in this report will prove to be accurate. The inclusion of a forward-looking statement herein should not be regarded as a representation by the Company that the Company s objectives will be achieved.

Forward-looking statements also involve risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond the Company s ability to control or predict and could, among other things, cause actual results to differ from those contained in forward-looking statements made in this report and presented elsewhere by management from time to time. Such factors, among others, may have a material adverse effect upon the Company s business, financial condition and results of operations and may include, but are not limited to, factors discussed under the heading Risk Factors and the following: changes in general economic conditions and interest rates; changes in the availability of capital and financing sources; changes in competitive conditions and prices in the Company s markets; changes in the relationship between supply of and demand for the Company s products; fluctuations in costs of raw materials and labor; changes in other significant operating expenses; decreases in sales of the Company s principal product lines; slow downs or inefficiencies in the Company s product research and development efforts; increases in expenditures related to increased government regulation of the Company s business; developments adversely affecting the Company s sales activities outside the United States; decreases in reimbursement levels by the Company s customers; increases in cost-containment efforts by group purchasing organizations; loss of the Company s key management and other personnel or inability to attract such management and other personnel; increases in costs of retaining existing independent sales agents of the Company s products; and unanticipated expenditures related to litigation, including litigation related to the Merger (as defined below) and the stock option issues and investigations by the U.S. Department of Justice. The Company cautions you not to place undue reliance on these forward-looking statements that speak only as of the date they were made. The Company does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this offering memorandum or to reflect the occurrence of unanticipated events.

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PART I

Item 1. Business.

General

Biomet, Inc. (*Biomet* or the *Company*), an Indiana corporation incorporated in 1977, and its subsidiaries design, manufacture and market products used primarily by musculoskeletal medical specialists in both surgical and non-surgical therapy. The Company s product portfolio encompasses reconstructive products, fixation devices, spinal products and other products. Biomet has corporate headquarters in Warsaw, Indiana, and manufacturing and/or office facilities in more than 50 locations worldwide.

The Company s principal subsidiaries include Biomet Orthopedics, Inc.; Biomet Manufacturing Corp.; EBI, L.P. (operating under the assumed names Biomet Trauma and Biomet Spine *(BTBS));* Biomet Europe B.V.; Biomet 3i, Inc. *(Biomet 3i)*; Biomet Microfixation, Inc.; Biomet Sports Medicine, Inc.; and Biomet Biologics, Inc. Unless the context requires otherwise, the term Company as used herein refers to Biomet and all of its subsidiaries.

The Company s annual reports on Form 10-K (for the five most recent fiscal years), Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge in, or may be accessed through, the Investors Section of the Company s Internet website at www.biomet.com as soon as reasonably practicable after the Company files or furnishes such material with or to the Securities and Exchange Commission (the *SEC*). In addition, copies of these reports will be made available free of charge, upon written request to the Company s Investor Relations Department.

The information on Biomet s website is not included as part of, nor incorporated by reference into, this Form 10-K.

Transaction with the Sponsor Group

On December 18, 2006, Biomet entered into an Agreement and Plan of Merger with LVB Acquisition, LLC, a Delaware limited liability company (*LVB*), and LVB Acquisition Merger Sub, Inc., an Indiana corporation and a wholly-owned subsidiary of LVB *(Purchaser),* which agreement was amended and restated as of June 7, 2007 (as may be amended and restated, supplemented or otherwise modified from time to time, the *Merger Agreement),* pursuant to which, after completion of the Offer (as defined below) and the satisfaction or waiver of certain conditions, Purchaser will be merged with and into Biomet, with Biomet continuing as the surviving corporation (the *Merger).* LVB is controlled by a consortium of private equity funds: Blackstone Capital Partners V L.P., Goldman Sachs Investments Ltd., KKR 2006 Fund L.P. and Texas Pacific Group (each a *Sponsor* and collectively, the *Sponsor Group).*

Pursuant to the Merger Agreement, on June 13, 2007, Purchaser commenced a cash tender offer, or the Offer, to purchase all of Biomet s outstanding common shares, without par value (the *Common Shares* or the *Shares),* at a price of $46.00 per Share (the *Offer Price),* without interest and less any required withholding taxes. The Offer was made pursuant to Purchaser s offer to purchase dated June 13, 2007 and the related letter of transmittal, each of which was filed with the SEC on June 13, 2007. The Offer expired at 12:00 midnight, New York City time, on July 11, 2007, with approximately 82.41% of the outstanding Shares having been tendered to Purchaser. On July 17, 2007, Purchaser completed its purchase of the tendered Shares.

In connection with the closing of the Offer, all outstanding options, each an Option, to purchase Shares under Biomet s stock plans, vested or unvested, were cancelled and each Option holder was paid an amount in cash equal to the excess, if any, of the Offer Price over the applicable option exercise price for each Share subject to an Option, less any required withholding taxes.

In connection with the Offer, Purchaser entered into a credit agreement dated as of July 11, 2007 for a $6,165 million senior secured term loan facility, or the Tender Facility, maturing on June 6, 2008, and pursuant to which it borrowed approximately $4,181 million to finance a portion of the Offer and pay related fees and expenses. Biomet expects to refinance all amounts borrowed under the Tender Facility concurrently with the closing of its new senior secured credit facilities. Additional financing for the Offer was provided in the form of indirect equity contributions from the Sponsor Group, who collectively caused approximately $5,197 million to be contributed as equity to LVB Acquisition Holding, LLC, or Holding, concurrently with the funding of the Tender Facility. Holding, which owned 100% of the outstanding equity interests in LVB at the time of the Offer, contributed such funds to LVB, which in turn contributed such funds to Purchaser.

As a result of Purchaser having acquired approximately 82.41% of the outstanding Shares pursuant to the Offer, Biomet will call a special meeting of shareholders to vote upon the Merger, at which meeting Biomet expects that LVB and Purchaser will vote all of their Shares to approve the Merger. At the effective time of the Merger, or the Effective Time, each Share, other than the Shares owned by LVB or Purchaser immediately prior to the Effective Time, will be cancelled automatically and will cease to exist and will be converted into the right to receive the Offer Price, without interest and less any required withholding taxes. Additional funds necessary to complete the Merger are expected to be funded using equity contributions by certain of Biomet s directors and equity contribution or rollover of existing equity interests by certain of Biomet s executive officers and members of Biomet s senior management (the *Management Participants),* an offering of high yield debt securities, initial borrowings under Biomet s new senior secured credit facilities, its cash on hand and, if necessary, additional equity contributions by the Sponsor Group.

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Pursuant to the Merger Agreement, LVB obtained *pro rata* representation on and control of the Board of Directors.

The closing of the Merger is subject to various conditions as described in the Merger Agreement, including to customary conditions such as the absence of any governmental orders preventing the Merger or any other transaction contemplated by the Merger Agreement, Biomet s provision to LVB of certain financial information and certificates described in the Merger Agreement, and the receipt of certain regulatory approvals. Biomet has agreed with LVB and Purchaser to each use reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable law to consummate the Merger, including with respect to obtaining the necessary consents, approvals and authorizations from governmental authorities.

Completion of the transactions contemplated by the Merger Agreement is subject to various regulatory approvals or consents, including those required by (1) the Hart-Scott-Rodino Antitrust Improvement Act of 1976, or the HSR Act, and (2) the antitrust laws of the European Union. On February 15, 2007, the parties were granted early termination of the waiting period under the HSR Act for the Merger Agreement and related transactions. No approval of the antitrust authorities in the European Union is required in connection with the Merger, and none of the parties is aware of any other required approvals. The Company has been informed by the Sponsor Group that, in accordance with the provisions of the Merger Agreement, the Sponsor Group currently expects to complete the Merger no earlier than September 2007, subject to the satisfaction of the conditions contained therein.

Review of historical stock option grant practices

In December 2006, following the publication of an analyst report suggesting that certain historical grants of stock options by Biomet took place on dates when Biomet s stock price was trading at relatively low prices and the filing of two shareholder derivative lawsuits alleging improper backdating of stock options, Biomet formed a special committee of the Board of Directors (the *Special Committee*), to conduct an independent investigation of Biomet s stock option grants for the period from March 1996 to May 2006 and to determine whether Biomet had any claims arising out of any inappropriate stock option backdating and, if so, whether it was in the best interest of Biomet and its shareholders to pursue any such claim.

Based on an analysis of the preliminary reports of the Special Committee and relevant accounting literature, the Audit Committee determined on March 30, 2007 that Biomet should amend its Annual Report on Form 10-K for the fiscal year ended May 31, 2006 and Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2006 to reflect the restatement of Biomet s consolidated financial statements (fiscal years ended May 31, 2006, 2005 and 2004 and periods ended August 31, 2006 and 2005) and related disclosures reflected therein. On May 25, 2007, the Board of Directors received and discussed the updated findings contained in the Special Committee s final report.

In light of the Special Committee s findings, on March 30, 2007 Gregory D. Hartman retired as Senior Vice President Finance, Chief Financial Officer and Treasurer, and Daniel P. Hann retired as Executive Vice President of Administration and as a Director of the Company. On February 26, 2007, Biomet announced the appointment of Jeffrey R. Binder as President and Chief Executive Officer and a member of the Board of Directors. On March 30, 2007, Biomet announced the appointment of J. Pat Richardson as Vice President Finance and Interim Chief Financial Officer and Treasurer, and on May 14, 2007, Biomet announced the appointment of Daniel P. Florin as Senior Vice President and Chief Financial Officer, effective June 5, 2007.

On May 29, 2007, Biomet filed its amended annual report on Form 10-K/A for the fiscal year ended May 31, 2006. On June 4, 2007, Biomet filed its amended quarterly report on Form 10-Q/A for the period ended August 31, 2006 and its quarterly reports on Form 10-Q for the periods ended November 30, 2006 and February 28, 2007. Biomet has not amended and does not intend to amend any of its previously filed annual reports on Form 10-K or quarterly reports on Form 10-Q for the periods affected by the restatement other than its amended annual report on Form 10-K/A for the fiscal year ended May 31, 2006 and its amended quarterly report on Form 10-Q/A for the period ended August 31, 2006. Accordingly, Biomet s previously issued financial statements affected by the restatement and any related reports of its independent registered public accounting firm should not be relied upon.

Products

The Company operates in one business segment, musculoskeletal products, which includes the design, manufacture and marketing of four major market segments: reconstructive products, fixation devices, spinal products and other products. The Company has three reportable geographic markets: United States, Europe and Rest of World. Reconstructive products include knee, hip and extremity joint replacement systems, as well as dental reconstructive devices, bone cements and accessories, autologous therapy products and the procedure-specific instrumentation required to implant the Company s reconstructive systems. Fixation devices include internal and external fixation devices, craniomaxillofacial fixation systems and electrical stimulation devices that do not address the spine. Spinal products include electrical stimulation devices addressing the spine, spinal fixation systems and orthobiologics. The other product sales category includes, arthroscopy products, softgoods and bracing

products, casting materials, general surgical instruments, operating room supplies and other surgical products. Depending on the intended application, the Company reports sales of its bone substitute materials in the reconstructive product, fixation device or spinal product segment.

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The following table shows the net sales and percentages of total net sales contributed by each of the Company s product segments for each of the three most recent fiscal years ended May 31, 2007.

	Years Ended May 31, (Dollar amounts in thousands)					
	2007		2006		2005	
	Net Sales	Percent of Total Net Sales	Net Sales	Percent of Total Net Sales	Net Sales	Percent of Total Net Sales
Reconstructive Products	$ 1,503,874	71%	$ 1,379,420	68%	$ 1,254,234	67%
Fixation Devices	224,694	11%	251,360	12%	246,730	13%
Spinal Products	205,862	10%	221,964	11%	214,039	11%
Other Products	172,998	8%	172,995	9%	164,947	9%
Total	$ 2,107,428	100%	$ 2,025,739	100%	$ 1,879,950	100%

Reconstructive Products

Orthopedic reconstructive implants are used to replace joints that have deteriorated as a result of disease (principally osteoarthritis) or injury. Reconstructive joint surgery involves the modification of the area surrounding the affected joint and the implantation of one or more manufactured components, and may involve the use of bone cement. The Company s primary orthopedic reconstructive joints are knees, hips and shoulders, but it produces other joints as well. The Company also produces the associated instruments required by orthopedic surgeons to implant the Company s reconstructive devices, as well as bone cements and cement delivery systems. Additionally, dental reconstructive implants and associated instrumentation are used for oral rehabilitation through the replacement of teeth and repair of hard and soft tissues.

Knee Systems. A total knee replacement typically includes a femoral component, a patellar component, a tibial component and an articulating surface. Total knee replacement may occur as an initial joint replacement procedure, or as a revision procedure, which may be required to replace, repair or enhance the initial implant. Partial, or unicondylar, knee replacement is an option when only a portion of the knee requires replacement.

Biomet s newest and most comprehensive total knee system, the Vanguard Complete Knee System, accommodates up to 145 degrees of flexion. The launch of the Vanguard System, in conjunction with Biomet s Microplasty® Minimally Invasive Total Knee Instrumentation, continued throughout fiscal year 2007. The Microplasty® Instrumentation is designed to reduce incision size and surrounding soft tissue disruption, which may provide reduced blood loss, a shortened hospital stay, reduced postoperative pain and less time spent in rehabilitation, as compared to a conventional procedure.

During fiscal year 2007, the Company continued the development efforts for the rotating platform and revision options of the Vanguard Complete Knee System, as well as the expansion of the Microplasty® Minimally Invasive Instrument Platform to include less invasive posterior referencing, anterior referencing and image-guided options. In addition, the launch of the Premier Instrumentation and the Vanguard Revision SSK (Super Stabilized Knee) System which began during fiscal year 2006, continued during fiscal year 2007.

The Company continues to be a market leader in addressing the increasing demand from practitioners and patients for procedures and products accommodating minimally-invasive knee techniques. The Oxford® Partial Knee, which is a mobile-bearing unicondylar knee that utilizes a minimally-invasive technique, continues to experience strong global sales. The Oxford® Knee, which was introduced in the United States during fiscal year 2005, is currently the only free-floating meniscal bearing unicompartmental system approved for use in the United States. The Company s offering of minimally-invasive partial knee systems also includes the Alpina® Unicompartmental Knee (which is not currently available in the United States), the Vanguard M Series Unicompartmental Knee System and the Repicci II® Unicondylar Knee System. The Vanguard M System is a modified version of the Oxford® Knee that incorporates a fixed-bearing tibial component as opposed to a free floating tibial bearing. The Repicci II® System is specifically designed to accommodate a minimally-invasive knee arthroplasty procedure that can often be performed on an outpatient basis, requiring a smaller incision, minimal bone removal, and may result in shorter recovery time and reduced blood loss. The Repicci II® System incorporates self-aligning metal and polyethylene components.

Hip Systems. A total hip replacement involves the replacement of the head of the femur and the acetabulum, and may occur as an initial joint replacement procedure, or as a revision procedure, which may be required to replace, repair or enhance the initial implant. A femoral hip prosthesis consists of a femoral head and stem, which can be cast, forged or wrought, depending on the design and material used. Acetabular components include a prosthetic replacement of the socket portion, or acetabulum, of the pelvic bone. Because of variations

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in human anatomy and differing design preferences among surgeons, femoral and acetabular prostheses are manufactured by the Company in a variety of sizes and configurations. The Company offers a broad array of total hip systems, most of which utilize titanium or cobalt chromium alloy femoral components and the Company s patented ArCom® or ArComXL® polyethylene-lined, metal-on-metal or ceramic-on-ceramic acetabular components. Many of the femoral prostheses utilize the Company s proprietary PPS® porous plasma spray coating, which enables cementless fixation.

The Alliance® family of hip systems is designed to address the demand from hospitals and surgeon groups toward standardization of total hip systems. The Alliance® Hip family provides the largest selection in the marketplace of primary and revision stems available for implantation with a single set of instruments. The Alliance® family of hip systems includes the Answer®, Bi-Metric®, Generation 4®, Hip Fracture, Integral®, Intrigue , Progressive®, Reach® and Rx 90® Hip Systems. The Alliance® family was further augmented by introducing Exact Instrumentation, an integrated instrument set developed to promote intraoperative flexibility and increase the efficiency, simplicity and consolidation of instrument use.

The Taperloc® Hip System is marketed for non-cemented use in patients undergoing primary or revision hip replacement surgery as a result of noninflammatory degenerative joint disease. The Taperloc® femoral component is a collarless, flat, wedge-shaped implant designed to provide excellent durability and stability in a design that is relatively simple to implant. The incorporation of standard and lateralized offset options provides the surgeon with the ability to reconstruct a stable joint with proper leg length in virtually all patient anatomies.

The Mallory-Head® Hip System is designed for both primary and revision total hip arthroplasty procedures. The primary femoral components feature a specific proximal geometry for cementless indications and a slightly different proximal ribbed geometry for those patients requiring fixation with bone cement. The Mallory-Head® Revision Calcar components provide innovative solutions for difficult revision cases. The Mallory-Head® Calcar replacement prosthesis is offered in both a one-piece and a modular version, which allows for individual customization at the time of surgical intervention, even in cases of severe bone deficiency. The modular version of the Mallory-Head® System incorporates the Company s patented roller hardened technology, which increases the strength of the modular connection.

The Company continues to explore the development of innovative articulation technologies and materials. Biomet s M2a-Taper Acetabular System combines a cobalt chromium head with a cobalt chromium liner and has demonstrated a 20- to 100-fold reduction in volumetric wear in simulator studies compared to traditional metal-polyethylene articulation systems. The M2a-Taper Acetabular System may be utilized on all of Biomet s femoral components and has continued to evolve with the introduction of the M2a-Magnum Articulation System, which incorporates larger diameter metal-on-metal components designed to more closely resemble the natural anatomy, offering improved range of motion and joint stability. The Company introduced the C2 a-Taper Acetabular System during fiscal year 2006, which provides an additional alternative bearing option featuring ceramic-on-ceramic articulation. In addition, the Company is pursuing the development of a diamond-on-diamond hip articulation system through its relationship with Diamicron, Inc., a global leader in the research, development and manufacture of polycrystalline diamond composite technology for biomedical applications. The Company continues to market ArComXL®, which is a second-generation highly crosslinked polyethylene bearing material based on the Company s proven ArCom® polyethylene. ArComXL® polyethylene has demonstrated excellent wear characteristics without measurable oxidation after accelerated aging. During the fourth quarter of fiscal year 2007, Biomet received FDA clearance to market acetabular hip liners manufactured from E-Poly Highly Crosslinked Polyethylene. Biomet s E-Poly liners are the world s first Vitamin E stabilized highly crosslinked polyethylene products to be introduced to the market. Vitamin E is a natural antioxidant and is expected to provide optimal oxidation resistance for the implant bearings used in the Company s total joint replacements.

Biomet s comprehensive Microplasty Minimally Invasive Hip Program includes proprietary products from Biomet s broad array of hip products, as well as a distinctive training program and uniquely-designed instruments for a minimally-invasive approach. The Company continues to enhance the development of the Microplasty® Minimally Invasive Hip Instruments. Biomet s minimally-invasive hip development efforts have been focused on various surgical approaches, including an anterior supine approach, which is an intramuscular surgical approach. Instruments relating to the anterior supine approach were first introduced during fiscal year 2006.

The ReCap® Total Resurfacing System is a bone-conserving product currently used outside the United States for patients in the early stages of degenerative joint disease, including osteoarthritis, rheumatoid arthritis and avascular necrosis. The Company commenced a clinical study for the ReCap® Total Resurfacing System in the United States during fiscal year 2006, and there are approximately 140 patients enrolled in the study as of May 31, 2007.

The Company also provides constrained hip liners, which are indicated for patients with a high risk of hip dislocation. While the percentage of patients requiring a constrained liner is relatively small, surgeons often prefer to utilize a primary and revision system that includes this option.

The Company introduced the Regenerex Porous Titanium Construct Acetabular System during the third quarter of fiscal year 2007. The Regenerex Construct provides design flexibility and solutions for difficult primary and revision cases. The advanced titanium scaffold structure of the Regenerex Construct is a continuous three-dimensional matrix comprised of industry-standard Ti-6AL-4V. Titanium is a clinically proven

material in the orthopedic market, with optimal biological fixation, and Regenerex is expected to be the material of choice for porous metal constructs.

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Extremity Systems. The Company offers a variety of shoulder systems including the Absolute® Bi-Polar, Bi-Angular®, Bio-Modular®, Comprehensive®, Copeland , Integrated and Mosaic Shoulder Systems, as well as uniquely-designed elbow replacement systems.

The Copeland Humeral Resurfacing Head was developed to minimize bone removal in shoulder procedures and has more than 19 years of positive clinical results in the United Kingdom. During fiscal year 2007, this system was expanded to include the Copeland EAS (Extended Articular Surface) Humeral Resurfacing Head designed to address rotator cuff arthropathy.

The first Comprehensive® Primary Shoulder was released at the end of fiscal year 2007. This initial release of the new Primary System included the Standard and Mini length Comprehensive® Primary Stems and the Versa-Dial Heads, as well as the Hybrid Glenoids. The Comprehensive® Primary System is scheduled to have full release by the third quarter of fiscal year 2008.

The ExploR® Radial Head Replacement System, a two-piece hemi-elbow comprised of a tapered stem paired with a head designed to articulate with the patient s natural bone, continued to receive excellent market acceptance during fiscal year 2007.

The Company plans to continue the introduction of T.E.S.S. Total Evolutive Shoulder System in selected European markets. The T.E.S.S. System is a complete shoulder system that can be used in all indications of shoulder arthroplasty. The Company plans to begin distribution of the T.E.S.S. System in the United States during the second half of fiscal year 2008, pending FDA clearance.

Dental Reconstructive Implants. Through its subsidiary, Biomet 3i, the Company develops, manufactures and markets products designed to enhance oral rehabilitation through the replacement of teeth and the repair of hard and soft tissues. These products include dental reconstructive implants and related instrumentation, bone substitute materials and regenerative products and materials. A dental implant is a small screw or cylinder, normally constructed of titanium or titanium alloy, that is surgically placed in the bone of the jaw to replace the root of a missing tooth and provide an anchor for an artificial tooth.

Biomet 3i s historical flagship product, the OSSEOTITE® product line, features a patented micro-roughened surface technology, which allows for early loading and improved bone integration to the surface of the implant. During fiscal year 2007, Biomet 3i further enhanced implant surface technology with the introduction of the NanoTite Implant. The surface features the application of nanometer scale crystals of calcium phosphate to the existing OSSEOTITE® surface. This enhancement has been demonstrated to increase the rate and extent of bone integration and results in a mechanical bonding of the host bone to the surface of the implant. The NanoTite Implant was initially introduced in Certain® Implant configurations, which is an internal connection system that, through the use of the QuickSeat® connection, provides audible and tactile feedback when abutments and ancillary components are seated into the implant. In addition, the 6/12 point connection design of the Certain® Implant System offers enhanced flexibility in placing the implant and abutment. During fiscal year 2007, Biomet 3i continued to build on the strength of the Certain® product line by introducing line extensions to the Certain® PREVAIL® Implant System. This implant is designed to enhance crestal bone preservation as a result of its integration of Platform Switching, a medialized Implant-Abutment-Junction that appears to limit the reformation of soft and hard tissue at the bone crest. In addition, the PREVAIL® Implants are acid-etched with a Full OSSEOTITE® Surface (FOSS) and are now available in NanoTite configurations.

During fiscal year 2007, Biomet 3i continued with developments to its tapered implant system. Building upon the fiscal year 2006 introduction of new Quad Shaping Drills and dedicated Depth Indicators, modifications to the implant body were incorporated during fiscal year 2007. These enhancements served to increase surface area and improve implant stability, particularly in less dense bone. The new surface was applied to the modified implant body during the second half of fiscal year 2007 with the introduction of the NanoTite Tapered Implant.

In the site preparation segment of the product portfolio, Biomet 3i engaged in alpha and beta evaluations of its CT Guidance Instrumentation Kits. This open architecture instrumentation is designed to interface with the software and surgical guide solutions offered by existing entities in the marketplace. As planning and guide fabrication are based upon computed tomography scans, this can result in more precise implant placement when combined with the depth and rotation control offered by the Biomet 3i instrumentation. As implant position can be replicated as planned, this can also provide the opportunity for fabrication of a provisional prosthesis in advance of surgery thereby allowing for a complete implant restoration in one patient visit. On the regenerative side of the site preparation portfolio, Biomet 3i introduced the OsseoGuard Membrane during fiscal year 2007. The OsseoGuard Membrane is a resorbable collagen based product that offers a resorption profile, strength and handling characteristics suitable for guided bone regeneration procedures in implant dentistry.

Several line extensions were launched during fiscal year 2007 in the restorative segment of the product portfolio including PreFormance Provisional Components for external hex implants, Locator® Attachments for Microminiplant Implants, and straight Healing Abutments and Impression Copings for the Certain® System. Additional efforts were directed at development of enhancements and line extensions for the Patient Specific Restoration (PSR) segment of the restorative product portfolio. Copy milling of laboratory created bar designs and a next generation of Encode® Abutments were among the development projects. The Encode® enhancement will allow Biomet 3i to fabricate an

abutment and orient implant body analogs in the proper position in a stone model. This can allow for the complete fabrication or a restoration from one supragingival impression significantly easier than present techniques and a potential opportunity to get more general dentists involved in implant therapy.

Locator® is a registered trademark of Zest Anchors, Inc.

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Other Reconstructive Devices. Biomet s PMI® Patient-Matched Implant services group expeditiously designs, manufactures and delivers one-of-a-kind reconstructive devices to orthopedic specialists. The Company believes this service continues to enhance Biomet s reconstructive sales by strengthening its relationships with orthopedic surgeons and augmenting its reputation as a responsive company committed to excellent product design. In order to assist orthopedic surgeons and their surgical teams in preoperative planning, Biomet s PMI® group utilizes a three-dimensional (*3-D*) bone reconstruction imaging system. The Company uses computed tomography (*CT*) data to produce 3-D reconstructions for the design and manufacture of patient-matched implants. With this imaging and model-making technology, Biomet s PMI® group is able to assist the physician prior to surgery by creating 3-D models. Within strict deadlines, the model is used by engineers, working closely with the surgeon, to create a PMI® design for the actual manufacturing of the custom implant for the patient.

The Company is involved in the ongoing development of bone cements and delivery systems. The Company has broadened the range of its internally developed and manufactured bone cement product offerings. Cobalt HV (High Viscosity) Bone Cement, which was introduced in the United States during fiscal year 2006, is particularly well suited for use in minimally-invasive surgery, but may be used in all applicable joint replacement procedures. The excellent handling characteristics and high optical contrast of Cobalt HV Bone Cement are well suited to the current trends in orthopedic surgery. The patented SoftPac monomer packaging offers the only alternative to glass vial packaging, which is inherently less safe due to the necessity to break the glass vial to deliver the monomer. The Company offers its internally developed and manufactured bone cements with and without antibiotics. In conjunction with antibiotic loaded bone cement is the use of StageOne Cement Spacer Molds. The molds are used in revision surgery following infection as the first stage of a two stage treatment plan. A new product planned for fiscal year 2008 release is Cobalt MV (Medium Viscosity) Bone Cement. This new introduction is expected to greatly expand Biomet s opportunity to further penetrate the bone cement market. Cobalt Bone Cement is marketed in conjunction with Biomet s patented Optivac® Vacuum Mixing System. During fiscal year 2007, the Fusion Vacuum Mixing Bowl was launched to address the open bowl mixing market. New for fiscal year 2008 is the OptiPac preloaded bone cement mixing and delivery system. It is anticipated that the OptiPac system will be launched in the United States following the initial European launch.

Additional products and services for reconstructive indications include bone substitute materials and services related to allograft material. The Company also provides services related to the supply of allograft material procured through several tissue bank alliances. Markets addressed by the Company s allograft services include the orthopedic and dental reconstructive market segments, as well as the spinal, craniomaxillofacial and arthroscopy segments.

The GPS® III Gravitational Platelet Separation System is a unique device that collects platelet concentrate from a small volume of the patient s blood using a fast, single spin process, offering a high-quality platelet concentrate that has broad potential applications in the reconstructive and spine markets. The GPS® III System is marketed in conjunction with the Biomet® Rapid Recovery Program, a comprehensive approach to patient education, a minimally-invasive surgical approach and pain management that was developed in conjunction with leading orthopedic surgeons in the United States.

Fixation Devices

The Company s fixation products include electrical stimulation devices (that do not address the spine), external fixation devices, craniomaxillofacial fixation systems, internal fixation devices and bone substitute materials utilized in fracture fixation applications. The Company s craniomaxillofacial fixation products are marketed by its subsidiary, Biomet Microfixation, Inc. All other fixation products are marketed primarily by Biomet Trauma.

Electrical Stimulation Systems. The Company is the market leader in the electrical stimulation segment of the fixation market. The U.S. Food and Drug Administration (*FDA*) has acknowledged the Company s extensive preclinical research documenting the Mechanism of Action for its pulsed electromagnetic field (*PEMF*), capacitative coupling and direct current technologies. The Mechanism of Action for these technologies involves the stimulation of a cascade of bone morphogenic proteins (*BMPs*), as well as angiogenesis, chondrogenesis and osteogenesis.

The EBI Bone Healing System® unit is a non-invasive bone growth stimulation device indicated for the treatment of recalcitrant bone fractures (nonunions), failed fusions and congenital pseudarthrosis that have not healed with conventional surgical and/or non-surgical methods. The non-invasive bone growth stimulation devices sold by the Company generally provide an alternative to surgical intervention in the management of these bony applications. The EBI Bone Healing System® units produce low-energy PEMF signals that induce weak pulsing currents in living tissues that are exposed to the signals. These pulses, when suitably configured in amplitude, repetition and duration, affect living bone cells to differentiate, migrate and proliferate. The Mechanism of Action behind the PEMF technology involves the stimulation of growth factors involved in normal bone healing. Biomet Trauma s preclinical research demonstrates that PEMF signals increase a number of growth factors, such as TGF-ß, BMP-2 and BMP-4, which are normal physiological regulators of the various stages of bone healing, including angiogenesis, chondrogenesis and osteogenesis. The EBI Bone Healing System® unit may be utilized over a patient s cast, incorporated into the cast or worn over the skin.

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The OrthoPak® 2 Bone Growth Stimulator, which is indicated for the treatment of recalcitrant (nonunion) fractures, offers a small, lightweight, non-invasive device using capacitive coupling technology. The OrthoPak® 2 device delivers bone growth stimulation through wafer-thin electrodes that add virtually no extra weight on the nonunion site. The Mechanism of Action behind the Company s capacitive coupling stimulation technology involves the stimulation of osteopromotive factors involved in normal bone healing, such as TGF-ß1 and PGE2. The OrthoPak® 2 product provides greater ease of use and enhances access to fracture sites that are normally hard to treat.

The Company also offers an implantable option when bone growth stimulation is required in conjunction with or subsequent to surgical intervention. The Biomet® OsteoGen® surgically implanted bone growth stimulator is an adjunct treatment when bone grafting and surgical intervention are required to treat recalcitrant (nonunion) fractures in long bones. The Mechanism of Action behind the Company s direct current stimulation technology involves the stimulation of a number of osteoinductive growth factors including BMP-2, -6 and -7 and the BMP-2 receptor ALK2, which are normal physiological regulators of various stages of bone healing, including chondrogenesis and osteogenesis. In addition, electrochemical reactions at the cathode lower oxygen concentrations and increase pH.

During fiscal year 2005, a private company petitioned the FDA to reclassify noninvasive bone growth stimulators from Class III to Class II medical devices. The petition was directed at products, like those described above, that utilize electromagnetic fields to stimulate bone growth. In June 2006, the FDA Advisory Panel recommended that the bone growth stimulator devices remain Class III devices. On January 17, 2007, the FDA published its agreement and sought public comment on the Advisory Panel s recommendation that bone growth stimulators remain Class III devices. The private company that had petitioned for the down-classification of bone growth stimulators has since formally withdrawn that request. It is Biomet s understanding that bone growth stimulators will remain Class III devices.

External Fixation Devices. External fixation is utilized for stabilization of fractures when alternative methods of fixation are not suitable. The Company offers a complete line of systems that address the various segments of the trauma and reconstructive external fixation marketplace. The DynaFix® and DynaFix® Vision Systems are patented, modular external fixation devices intended for use in complex trauma situations involving upper extremities, the pelvis and lower extremities. The recently introduced Biomet® Vision FootRing System is a comprehensive external fixation system designed for the treatment of osteotomies, arthrodesis and fracture fixation indications. This system offers a simplified, snap-fit application of all fixation components to the Vision Ring and can be configured into a multitude of constructs ranging from simple fractures to complex construction. The Biomet® Vision FootRing System is made of lightweight, carbon fiber, which is radiolucent and also provides for increased patient comfort. Biomet Trauma also has a full line of external fixation products for certain reconstructive procedures involving limb lengthening, fusion, articulated fixation and deformity correction applications.

Internal Fixation Devices. The Company s internal fixation devices include products such as nails, plates, screws, pins and wires designed to stabilize traumatic bone injuries. These devices are used by orthopedic surgeons to provide an accurate means of setting and stabilizing fractures and for other reconstructive procedures. They are intended to aid in the healing process and may be removed when healing is complete. Internal fixation devices are not intended to replace normal body structures.

The Company develops, manufactures and/or distributes innovative products that fit into key segments of the fixation marketplace. The VHS® Vari-Angle Hip Fixation System is used primarily in the treatment of hip fractures. The components of the VHS® Vari-Angle Hip Fixation System can be adjusted intraoperatively, allowing the hospital to carry less inventory, while providing greater intraoperative flexibility to achieve the optimum fixation angle.

Biomet Trauma markets several nail systems including the Holland Nail System, which is a single, universal trochanteric nail designed to treat all types of femoral (hip or thigh) fractures. One of Biomet Trauma s premier products, the Biomet® Peritrochanteric Nail System, incorporates an innovative single lag screw concept and utilizes a trochanteric entry point. In conjunction with the VHS® System and the Holland Nail System, the Biomet® Peritrochanteric Nail System further augments the Company s product portfolio for hip fracture fixation treatment.

The Biomet® Low Profile Tibial Nail, used to treat fractures between the knee and ankle, is primarily indicated in the treatment of unstable or nonunion fractures. The Biomet® Ankle Arthrodesis Nail is designed for reconstructive procedures where internal fixation is desired for fusion of the ankle joint. Nailing products introduced during fiscal year 2007 were the Biomet® Pediatric Locking Nail (PLN) and the Biomet® WIN Flexible Nail to complement Biomet Trauma s pediatric product line. The PLN customizable locking nail was designed to provide stable fixation of femur fractures in children. The WIN Nail is manufactured of titanium alloy and is intended to treat a variety of long bone fractures.

The Company has also implemented several projects in the area of locked plating designs. The OptiLock® Distal Radius Plating System was designed using state-of-the-art locking technology and incorporates plates and screws that address volar, radial and dorsal plating applications. The OptiLock® Periarticular Plating System is a unique, pre-contoured plating system designed for fixation of periarticular lower extremity fractures. The system incorporates patent-pending SphereLock technology that allows the surgeon to utilize locked or unlocked screws in various diameters through any hole in the plate, while incorporating minimally-invasive techniques. Biomet Trauma continued to rollout the OptiLock® Proximal Tibial Plating System throughout fiscal year 2007. The Company continues to receive positive feedback from surgeons

regarding this system, which was initially introduced during the first quarter of fiscal year 2007. During the first quarter of fiscal year 2008, the Company plans to introduce the OptiLock® Distal Femoral Plating System and the Distal Tibial Plating System to complete its offering of periarticular plates, addressing a variety of simple and complex fractures.

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During the first quarter of fiscal year 2008, Biomet Trauma plans to introduce the VPC (Variable Pitch Compression) Screw System. This system features headless stainless steel implants with a variable pitch designed to provide compression and stable fixation of small bone fragments. The VPC System is primarily used for the fixation of scaphoid fractures and has proved useful in a variety of other applications, including small joint arthrodesis and intra-articular fracture fixation of other small bones in the wrist, hand and forefoot.

During fiscal year 2008, the Company intends to continue to make innovative improvements in hip fracture, locked plating, external fixation and intramedullary fixation devices to enhance the Company s portfolio of fixation implants for the trauma marketplace.

Craniomaxillofacial Fixation Systems. The Company manufactures and distributes craniomaxillofacial, neurosurgical, and thoracic titanium and resorbable implants, along with associated surgical instrumentation, principally marketed to craniomaxillofacial, neurosurgical, plastic, ear/nose/throat, pediatric and cardiothoracic surgeons through its subsidiary, Biomet Microfixation, Inc. The Company also offers specialty craniomaxillofacial surgical instruments, HTR-PMI® Hard Tissue Replacement for repair of severe cranial defects, and the Mimix® Bone Substitute Material for use in craniomaxillofacial and neurosurgical applications.

Biomet Microfixation manufactures and markets the LactoSorb® Fixation System of resorbable plates and screws comprised of a copolymer of poly-L-lactic acid and polyglycolic acid. As a result of its innovative design, the LactoSorb® System is comparable in strength to titanium plating systems at its initial placement and is resorbed within 9 to 15 months after implantation. The LactoSorb® System is especially beneficial in pediatric reconstruction cases by eliminating the need for additional surgery to remove the plates and screws.

Biomet Microfixation plans to introduce Allogenix Plus bone graft material during fiscal year 2008. This biomaterial combines the lecithin-based Allogenix Demineralized Bone Matrix with ProOsteon® granules, resulting in an improved bone graft material. By combining a scaffold with an osteoinductive source into one product, there will not be a need to subject the patient to a second procedure in order to harvest bone chips for use as a scaffold. This also results in an economic benefit due to the reduction in operating room time that can be realized.

Bone Substitute Materials. When presented with a patient demonstrating a bone defect, such as a fractured bone or bone loss due to removal of a tumor, the treating surgeon may remove a portion of bone from the patient at a second site to use as a graft to induce healing at the site of the defect. Bone substitute materials eliminate the pain created at a graft site, as well as the costs associated with this additional surgical procedure. Depending on the specific use of the bone substitute material, it can have reconstructive, fixation or spinal applications.

Spinal Products

The Company s spinal products include electrical stimulation devices for spinal applications, spinal fixation systems, bone substitute materials and motion preservation systems, as well as allograft services for spinal applications. These products and services are primarily marketed in the United States under the Biomet Spine tradename.

Spinal Fusion Stimulation Systems. Spinal fusions are surgical procedures undertaken to establish bony union between adjacent vertebrae. The Company distributes both non-invasive and implantable electrical stimulation units that surgeons can use as options to provide an appropriate adjunct to surgical intervention in the treatment of spinal fusion applications. The Company has assembled extensive preclinical research documenting the Mechanism of Action for the technology utilized in its spinal fusion stimulation systems.

The SpinalPak® II Spine Fusion Stimulator utilizes capacitive coupling technology to encourage fusion incorporation. The Mechanism of Action behind the capacitive coupling stimulation technology involves the stimulation of osteopromotive factors that modulate normal bone healing, such as TGF-ß1 and PGE2. The unit consists of a small, lightweight generator worn outside the body that is connected to wafer-thin electrodes applied over the fusion site. The SpinalPak® II System is patient friendly, enhancing comfort whether the patient is standing, sitting or reclining, and optimizes compliance with the treatment regimen to enhance fusion success.

The surgically implanted SpF® Spinal Fusion Stimulator consists of a generator that provides a constant direct current to titanium cathodes placed where bone growth is required. The Mechanism of Action behind the Company s direct current stimulation technology involves the stimulation of a number of osteoinductive growth factors including BMP-2, -6 and -7 and the BMP-2 receptor ALK2, which are normal physiological regulators of various stages of bone healing, including chondrogenesis and osteogenesis. The SpF® Stimulator has exhibited a 50% increase in fusion success rates over fusions with autograft alone. The SpF® MINI is a smaller SpF® Stimulator, designed to enhance patient comfort and physician pre-implant testing and implantation.

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Spinal Fixation Systems. The Company markets spinal fixation products for various spinal fusion applications. The Company s Synergy System, which has been on the market since 1992, is a complete system capable of addressing both degenerative and deformity indications. It is available in both stainless steel and titanium versions, offering 4.75mm and 6.35mm rod diameters, as well as a full complement of screws ranging from 4.0mm to 8.0mm in both fixed and polyaxial styles. The Synergy System also contains a full offering of hooks in a wide variety of styles and sizes. A more recent introduction in this market is the Array® Spinal System, which has a single locking setscrew featuring V-Force Thread Technology designed to enhance the intraoperative ease of use for the surgeon. During fiscal year 2006, the Company launched the Array® Deformity Spine System, which includes various styles of screws, hooks and rods for scoliosis correction. The most recent product offering in this area is the Polaris System, which is a top-loading, inner tightening thoracolumbar system utilizing a patented closing mechanism known as a Helical Flange. This feature helps prevent cross threading and seat splay, simplifying the implant closing procedure for the surgeon. Currently, the Polaris System is available in titanium, in 6.35mm and 5.5mm rod diameters, with both fixed and polyaxial screws ranging in size from 4.0 to 7.0mm. The Company also markets the Structure System, which utilizes various kinds of fixation washers used to secure screws to the vertebral body for an anterior screw/rod construct. In the thoracolumbar fusion area, the Company markets the Biomet® Omega 21 Spine System. This system features a unique multidirectional coupler and expandable screw. The Company also markets the SpineLink®-II Spinal Fixation System, which addresses many of the inherent limitations of traditional rod and plate systems by linking each spine segment individually for intrasegmental control. Through the use of a modular titanium link and polydirectional screw, this unique system provides an intrasegmental option for spine fixation, enabling the surgeon to tailor the segmental construction to the patient s anatomy.

The Company offers a variety of spacer products for the thoracolumbar market segment. The Ionic® Spine Spacer System, for use with the Omega 21 Spine System or SpineLink®-II Spinal Fixation System, features an open design that allows for optimal bone graft placement and bone ingrowth, along with the additional benefit of excellent postoperative x-ray visualization. The GEO Structure® family features various sizes and shapes, including ovals, straight rectangles and bent rectangles. The Geo Structure® family of products are produced from cast titanium, offering a maximum amount of space inside the implant, with a minimum amount of material, resulting in excellent strength characteristics and imaging capabilities. The Solitaire System is a stand-alone device for anterior indications. The TPS Telescopic Plate Spacer is a unique implant indicated for trauma and tumor pathologies of the thoracolumbar spine. This implant is designed as a combination of a plate and spacer that is expandable, allowing the surgeon to fit the implant to the defect. The Company also offers the ESL® (Elliptically Shaped Lumbar) and Ibex thoracolumbar spacers. Both of these spacers are endplate-sparing designs, reducing the risk of subsidence. In addition, both the ESL® and Ibex Systems are open to permit ample space for bone graft placement and growth. The ESL® System features an elliptical shape offering optimal surface contact with the vertebral body endplates. The Ibex implant is curved to conform to the anatomical shape of the vertebral body. Additionally, the beveled corners of the Ibex implant facilitate ease of use for the surgeon during implantation. The ESL® and Ibex thoracolumbar spacers are both available with a PEEK-OPTIMA® implant option for increased radiographic fusion assessment.

For cervical applications, the VueLock® Anterior Cervical Plate System offers surgeons several important benefits. The open design of the VueLock® System provides surgeons with enhanced visualization of the bone graft both during the actual surgical procedure and postoperatively on x-ray. The Company also offers the C-TEK® Anterior Cervical Plate System, which offers a constrained, semi-constrained or a completely rigid construct, depending on the surgeon s preference. Made from titanium, the C-TEK® Anterior Cervical Plate System offers both fixed and variable screws in a wide variety of diameters and lengths. This system also features a unique locking mechanism to prevent screw back out. For posterior cervical procedures, the Company offers the Altius M-INI System, which offers top loading, inner tightening, polyaxial screws as well as hooks for the cervico-thoracic spine. The Altius M-INI System features a 3.5mm rod and a wide variety of screws ranging in diameter from 3.5mm to 4.5mm. Occipital fixation is also available with the Altius M-INI System, featuring a low profile plate that is placed independently from the rod, allowing for easier assembly and less rod contouring.

Minimally-invasive spine surgery is of growing interest in the practice of many spine surgeons. Traditional, open surgical approaches to the spine for discectomy, fusion and fixation have brought with them lengthy postoperative healing and rehabilitation issues. A minimally-invasive approach to spine surgery has demonstrated less morbidity, minimal blood loss and further benefits such as a shorter hospital stay. In the minimally-invasive surgery market, the Company markets the VuePASS Portal Access Surgical System, which offers spine surgeons an optimized balance between the current limitations of competitive percutaneous systems and traditional successful open techniques. Under direct visualization for a posterior lumbar approach, the VuePASS System allows for traditional open techniques through a minimally-invasive cannula access system.

To address the vertebral body compression fracture market, the Company offers two systems designed for the delivery of materials to weakened bony structures, including the CDV and LP^2 Delivery Systems. Through a series of dilating cannulae and various instruments, the systems allow the surgeon to access the anatomy through a percutaneous approach and safely deliver high viscosity material under low, controlled pressure. The CDV Delivery System offers the ability to biopsy before delivery. During fiscal year 2008, the Company expects to introduce Cobalt V Bone Cement for vertebroplasty applications.

Bone Substitute Materials. Traditional spinal fixation surgery includes the use of a spinal fixation device in conjunction with a bone substitute or bone graft material to increase the likelihood of successful bone fusion. Pro Osteon® 200R and Pro Osteon® 500R are bone graft substitutes

made from marine coral. Both are a resorbable combination of hydroxyapatite and calcium carbonate that is resorbed and replaced with natural bone during the healing process. Pro Osteon® 200R is available as granules. Pro Osteon® 500R is available in granules and blocks.

Helical Flange is a trademark of the Jackson Group.

PEEK-OPTIMA® is a registered trademark of Invibio, Ltd.

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The Biomet® DBM (Demineralized Bone Matrix) Putty, derived exclusively from human bone, can be used with a variety of substances, such as bone substitute material, machined allograft, autograft and platelet rich plasma, to enhance the surgeon s treatment options. The Company also has available the InterGro® line of DBM products (InterGro® Paste, InterGro® Putty and InterGro® Plus). The InterGro® DBM products use lecithin as a carrier, which is a natural lipid carrier that is resistant to breakdown by bodily fluids, temperature or aggressive irrigation.

During fiscal year 2007, Biomet Spine launched PlatFORM DBM, an osteoconductive, osteoinductive and osteogenic matrix. This material consists of freeze-dried, highly flexible and pliable sheets of demineralized bone matrix putty for use as a bone void filler. PlatFORM DBM can be utilized alone or in combination with autologous bone or other forms of allograft and can be rehydrated with bone marrow aspirate for use in posterolateral spine fusions. This matrix has no synthetic additives, eliminating any surgeon concern regarding toxicity of certain carriers currently used in other DBMs.

Precision Machined Allograft. Many spinal fusion procedures, in both the lumbar and cervical spine, involve interbody spinal fusion. Surgeons often utilize precision machined allograft spacers to fuse the interbody space. The Company provides services related to the OsteoStim® Cervical Allograft Spacer for anterior cervical interbody fusions, the OsteoStim® ALIF Allograft Spacer for anterior lumbar interbody fusions and the OsteoStim® PLIF Allograft Spacer for posterior lumbar interbody fusions, depending on the surgical approach. All three systems are lordotic in shape, have serrated teeth on the top and bottom for added stability, are offered in various heights and have specific instrumentation to facilitate implantation.

Motion Preservation Products. An IDE study for the Regain® Disc began in the United States during fiscal year 2007. The Regain® Lumbar Artificial Disc is a one-piece pyrocarbon artificial disc nucleus replacement. The pyrocarbon material has a high level of strength, is biocompatible and extremely resistant to wear. In addition, Biomet Spine is developing the Rescue Cervical Disc Replacement product and the Min-T Lumbar Artificial Disc for total lumbar disc replacement procedures.

Other Products

The Company also manufactures and distributes several other products, including orthopedic support products (also referred to as softgoods and bracing products), arthroscopy products, operating room supplies, casting materials, general surgical instruments, wound care products and other surgical products. The Company manufactures and markets a line of arthroscopy products through its Biomet Sports Medicine, Inc. subsidiary.

Arthroscopy Products. Arthroscopy is a minimally-invasive orthopedic surgical procedure in which an arthroscope is inserted through a small incision to allow the surgeon direct visualization of the joint. This market is comprised of five product categories: power instruments, manual instruments, visualization products, soft tissue anchors, and procedure-specific instruments and implants. The Company s principal products consist of the EZLoc Femoral Fixation Device, the WasherLoc Tibial Fixation Device, LactoSorb® resorbable arthroscopic fixation products, the ALLThread Suture Anchor and the InnerVue Diagnostic Scope System, which utilizes a needle scope to diagnose knee and shoulder conditions in a physician s office.

During fiscal year 2007, Biomet Sports Medicine signed an agreement with Marc Tec to license more than 45 patents with applications in sports medicine and arthroscopy. This agreement is expected to lead to the improvement of existing products and allow the Company to introduce unique, innovative products into the sports medicine market.

Biomet Sports Medicine also signed an exclusive marketing and distribution agreement with Kensey Nash for OrthoFill, a proprietary resorbable bone void filler during fiscal year 2007. Further, Biomet Sports Medicine and Kensey Nash have agreed to work together to advance the research and development of Kensey Nash s cartilage repair matrix to produce an improved clinical solution for articular cartilage defects.

Orthopedic Support Products. The Company distributes a line of orthopedic support products under the Biomet Bracing name, including back braces, knee braces and immobilizers, wrist and forearm splints, cervical collars, shoulder immobilizers, slings, abdominal braces, ankle supports and a variety of other orthopedic splints. Sales of these softgoods and bracing products are assisted by the S.O.S.℠ Support-on-Site stock and bill program, which handles the details of product delivery for the healthcare provider.

Product Development

The Company s research and development efforts are essentially divided into two categories: innovative new technology and evolutionary developments. Most of the innovative new technology development efforts are focused on biomaterial products, and are managed at the corporate level and take place primarily in Warsaw, Indiana. Evolutionary developments are driven primarily by the individual subsidiaries and include product line extensions and improvements.

The Company continues to aggressively conduct internal research and development efforts to generate new marketable products, technologies and materials. In addition, the Company is well positioned to take advantage of external acquisition and development opportunities. An important component of the Company s strategy has been the formation of strategic alliances to enhance the development of new musculoskeletal products.

OrthoFill is a trademark of Kensey Nash Corporation.

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For the years ended May 31, 2007, 2006 and 2005, the Company expended approximately $94,416,000, $84,988,000, and $80,213,000, respectively, on research and development. It is expected that ongoing research and development expenses will continue to increase. The Company s principal research and development efforts relate to its orthopedic reconstructive devices, spinal fixation products, revision orthopedic reconstructive devices, dental reconstructive devices, arthroscopy products, resorbable technology, biomaterial products and autologous therapies.

The Company s research and development efforts have produced more than 700 new products and services during the last eight fiscal years. During fiscal year 2008, the Company intends to release numerous new products, product line extensions and improvements.

Government Regulation

Most aspects of the Company s business are subject to some degree of government regulation in the countries in which its operations are conducted. It has always been the practice of the Company to comply with all regulatory requirements governing its products and operations and to conduct its affairs in an ethical manner. This practice is reflected in the Company s Code of Business Conduct and Ethics and through the responsibility of the Audit Committee of the Board of Directors to review the Company s systems of internal control, its process for monitoring compliance with laws and regulations and its process for monitoring compliance with its Code of Business Conduct and Ethics. For some products, and in some areas of the world such as the United States, Canada, Japan and Europe, government regulation is significant and, in general, there appears to be a trend toward more stringent regulation throughout the world, as well as global harmonization of various regulatory requirements. The Company devotes significant time, effort and expense to addressing the extensive government and regulatory requirements applicable to its business. Governmental regulatory actions can result in the recall or seizure of products, suspension or revocation of the authority necessary for the production or sale of a product, and other civil and criminal sanctions. The Company believes that it is no more or less adversely affected by existing government regulations than are its competitors.

In the United States, the development, testing, marketing and manufacturing of medical devices are regulated under the Medical Device Amendments of 1976 to the Federal Food, Drug and Cosmetic Act, the Safe Medical Devices Act of 1990, the FDA Modernization Act of 1997, the Medical Device User Fee and Modernization Act of 2002 and additional regulations promulgated by the FDA and various other federal, state and local agencies. In general, these statutes and regulations require that manufacturers adhere to certain standards designed to ensure the safety and efficacy of medical devices and related medical products.

The Company believes it is well positioned to face the changing international regulatory environment. The International Standards Organization (*ISO*) has an internationally recognized set of standards aimed at ensuring the design and manufacture of quality products. A company that has passed an ISO audit and obtained ISO certification applicable to its activity sector is internationally recognized as having quality manufacturing processes. The European Union legislation requires that medical devices bear a CE mark. The CE mark is a European Union and European Free Trade Association symbol, which indicates that the product adheres to European Medical Device Directives. Compliance with ISO quality systems standards is one of the requirements for placing the CE mark on the Company s products. Each of the Company s principal manufacturing facilities has been certified to ISO 13485:2003. Each of the Company s products sold in Europe bears the CE mark, with the exception of custom-made implants that do not require a CE mark. The EU has recently reclassified Biomet s total joint products to Class III via Directive 2005/50/EC and the Company is in the process of complying with this Directive.

In addition, governmental bodies in the United States and throughout the world have expressed concern about the costs relating to healthcare and, in some cases, have focused attention on the pricing of medical devices. Government regulation regarding pricing of medical devices already exists in some countries and may be expanded in the United States and other countries in the future. The Company is subject to increasing pricing pressures worldwide as a result of growing regulatory pressures, as well as the expanding predominance of managed care groups and institutional and governmental purchasers. Under Title VI of the Social Security Amendments of 1983, hospitals receive a predetermined amount of Medicare reimbursement for treating a particular patient based upon the patient s type of illness identified with reference to the patient s diagnosis under one or more of several hundred diagnosis-related groups (*DRGs*). Other factors affecting a specific hospital s reimbursement rate include the size of the hospital, its teaching status and its geographic location.

While the Company is unable to predict the extent to which its business may be affected by future regulatory developments, it believes that its substantial experience in dealing with governmental regulatory requirements and restrictions throughout the world, its emphasis on efficient means of distribution and its ongoing development of new and technologically-advanced products should enable it to continue to compete effectively within this increasingly regulated environment.

Sales and Marketing

The Company believes that sales of its products are currently affected and will continue to be positively affected by favorable demographic trends and a shift toward a preference for technologically-advanced products. The demand for musculoskeletal products continues to grow, in part, as a result of the aging of the baby boomer population in the United States. The U.S. Census Bureau projections indicate that the population aged 55 to 75 years is expected to grow 36% to approximately 70 million people by the year 2017. Moreover, the age range of potential patients is expanding outside the traditional 55 to 75 year range, as procedures are now being recommended for younger patients and as elderly patients are remaining healthier and more active than in past generations. The Company has also observed a trend toward a demand

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for technologically-advanced products that are simple to use and cost effective, while applying state-of-the-art solutions to the demands of the increasingly active patient. The Company believes it has firmly positioned itself as a surgeon advocate and has worked to promote the right of the surgeon to prescribe the medical treatment best suited to the needs of the individual patient.

The Company has diligently worked to attract and retain qualified, well-trained and motivated sales representatives. The breadth of the Company s product offering and the quality of its salesforces collaborate to create synergies that uniquely position the Company to continue to efficiently penetrate the musculoskeletal market. In the United States, the Company s products are marketed by a combination of independent commissioned sales agents and direct sales representatives, based on the specific product group being represented. In an effort to ensure the continuity of its relationships with the independent third-party distributors who represent Biomet Orthopedics, Inc., the Company incurred expenses of $39,200,000 and approximately $33,000,000 in fiscal year 2007 and the first quarter of fiscal year 2008, respectively, which negatively affected its results of operations for these periods. The Company does not expect to incur additional significant expenses related to modifying these relationships subsequent to the first quarter of fiscal year 2008. In Europe, the Company s products are promoted by sales representatives employed by subsidiaries, independent third-party distributors, and some independent commissioned sales agents, based primarily on the geographic location. In the rest of the world, the Company maintains direct selling organizations in ten countries, as well as independent commissioned sales agents and independent third-party distributors in other key markets. In aggregate, the Company s products are marketed by more than 2,700 sales representatives throughout the world.

Elective surgery-related products appear to be influenced to some degree by seasonal factors, as the number of elective procedures declines during the summer months and the winter holiday season.

The Company s customers are the hospitals, surgeons, other physicians and healthcare providers who use its products in the course of their practices. The business of the Company is dependent upon the relationships maintained by its distributors and salespersons with these customers, as well as the Company s ability to design and manufacture products that meet the physicians technical requirements at a competitive price.

For the fiscal years ended May 31, 2007, 2006 and 2005, the Company s foreign sales aggregated $800,953,000, $700,626,000 and $641,223,000, respectively, or 38%, 35% and 34% of net sales, respectively. Major international markets for the Company s products are Western Europe, Asia Pacific, Australia, Canada and Latin America. The Company s business in these markets is subject to pricing pressures and currency fluctuation risks. During fiscal year 2007, foreign sales were positively impacted by $38 million due to foreign currency translations. As the Company continues to expand in key international markets, it faces obstacles created by competition, governmental regulations and regulatory requirements. Additional data concerning net sales to customers, operating income, long-lived assets, capital expenditures and depreciation and amortization by geographic areas are set forth in Note L of the Notes to Consolidated Financial Statements included in Item 8 of this report and are incorporated herein by reference.

The Company has inventory located throughout the world with its customers, its distributors and direct salespersons for their use in marketing its products and in filling customer orders. As of May 31, 2007, inventory of approximately $177,506,000 was located with these distributors, salespersons and customers.

Competition

The business of the Company is highly competitive. Competition within the industry is primarily based on service, clinical results and product design, although price competition is an important factor as healthcare providers continue to be concerned with costs. Major competitors in the Company s four major market segments are set forth below by market segment.

Reconstructive Products

The Company s orthopedic reconstructive devices compete with those offered by DePuy, Inc. (a subsidiary of Johnson & Johnson), Smith & Nephew plc, Stryker Orthopaedics (a division of Stryker Corp.) and Zimmer, Inc. (a subsidiary of Zimmer Holdings, Inc.). Management believes these four companies, together with Biomet, have the predominant share of the global orthopedic reconstructive device market. The Company believes that its prices for orthopedic reconstructive devices are competitive with those in the industry. The Company believes its future success will depend upon, among other things, its service and responsiveness to its distributors and orthopedic specialists, the continued excellent clinical results of its products, and upon its ability to design and market innovative and technologically-advanced products that meet the needs of the marketplace.

The Company s dental reconstructive products compete in the areas of dental reconstructive implants and related products. The primary competitors in the dental implant market include Nobel Biocare AB, Straumann AG, Zimmer Dental (a subsidiary of Zimmer Holdings, Inc.) and Astra Tech (part of the AstraZeneca Group).

Fixation Devices

The Company s electrical stimulation devices primarily compete with those offered by Orthofix, Inc. (a subsidiary of Orthofix International N.V.), DJO Inc. (formerly dj Orthopedics, Inc.) and Smith & Nephew plc. Competition in the electrical stimulation market is on the basis of product design, service, price and success rates of various treatment alternatives.

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The Company s external and internal fixation devices compete with other such devices primarily on the basis of price, ease of application and clinical results. The principal competitors in the external fixation market are Smith & Nephew plc, Stryker Trauma (a division of Stryker Corp.), Synthes, Inc. and Orthofix, Inc. (a subsidiary of Orthofix International N.V.). The Company s internal fixation product lines compete with those of Synthes, Inc., DePuy, Inc. (a Johnson & Johnson Company), Zimmer, Inc. (a subsidiary of Zimmer Holdings, Inc.), Smith & Nephew plc and Stryker Trauma (a division of Stryker Corp.).

Spinal Products

The Company s spinal fixation systems compete with other spinal fixation systems primarily on the basis of breadth of product line, product recognition and price. The principal competitors in this area are Medtronic Sofamor Danek, Inc. (a subsidiary of Medtronic, Inc.), DePuy Spine (a Johnson & Johnson Company), Synthes, Inc., Stryker Spine (a division of Stryker Corp.), Zimmer Spine (a subsidiary of Zimmer Holdings, Inc.) and others.

Other Products

The Company s craniomaxillofacial fixation products, specialty surgical instrumentation and neurosurgical cranial flap fixation products compete with those offered by Synthes, Inc., Stryker Leibinger Micro Implants (a division of Stryker Corp.), KLS-Martin, L.P., Osteomed Corp., Aesculap, Inc., Medtronic, Inc. and Codman (a Johnson & Johnson Company).

The Company s arthroscopy products compete primarily in the areas of procedure-specific implants and instruments, manual instruments and power instruments. Competitors include Smith & Nephew Endoscopy (a division of Smith & Nephew plc, Stryker Corp, Linvatec Corp. (a subsidiary of CONMED Corporation), Mitek (a division of Ethicon, a Johnson & Johnson Company), Arthrocare Corp., and Arthrex, Inc.

The Company s orthopedic support products consist primarily of back braces, knee braces and immobilizers, wrist and forearm splints, cervical collars, shoulder immobilizers, slings, abdominal braces and ankle supports that compete with those offered by Orthofix, Inc. (a subsidiary of Orthofix International N.V.), DJO Inc. (formerly dj Orthopedics, Inc.) and Ossur. Competition in the bracing market is on the basis of product design, service and price.

Raw Materials and Supplies

The raw materials used in the manufacture of the Company s orthopedic reconstructive devices are principally nonferrous metallic alloys, stainless steel and polyethylene powder. With the exception of limitations on the supply of polyethylene powder, none of the Company s raw material requirements are limited to any material extent by critical supply or single origins. The demand for certain raw materials used by the Company, such as cobalt-chromium alloy and titanium may vary. The primary buyers of these metallic alloys are in the aerospace industry. If the demands of the aerospace industry should increase dramatically, the Company could experience complications in obtaining these raw materials. However, based on its current relationship with its suppliers, the Company does not anticipate a material shortage in the foreseeable future. Further, the Company believes that its inventory of raw materials is sufficient to meet any short-term supply shortages of metallic alloys. The results of the Company s operations are not materially dependent on raw material costs.

The Company purchases all components of its electrical stimulators from approximately 190 outside suppliers, approximately 15 of whom are the single source of supply for the particular product. In most cases, the Company believes that all components are replaceable with similar components. In the event of a shortage, there are alternative sources of supply available for all components, but some time would likely elapse before the Company s orders could be filled.

Coral is the primary raw material utilized to manufacture certain of the Company s Pro Osteon® products. The coral used in Pro Osteon® products is sourced from two genera located in a variety of geographic locations. The Company s primary source of coral has historically been the tropical areas of the Pacific and Indian Oceans. Although the Company obtains its coral from a single source supplier, for which an alternate supplier has not been identified, the Company believes that it has an adequate supply of coral for the foreseeable future.

The Company purchases all materials to produce its dental products from approximately 95 suppliers, approximately 87 of whom are the single source of supply for the particular product. The Company believes that, in the event of a shortage, there are readily available alternative sources of supply for single-source products, and maintains an inventory of materials sufficient to meet any short-term shortages of supply.

Employees

As of May 31, 2007, the Company s domestic operations (including Puerto Rico) employed approximately 4,254 persons, of whom approximately 2,215 were engaged in production and approximately 2,039 in research and development, sales, marketing, administrative and clerical efforts. The Company s international subsidiaries employed approximately 2,252 persons, of whom approximately 1,132 were engaged in production and approximately 1,120 in research and development, sales, marketing, administrative and clerical efforts. None of the Company s principal domestic manufacturing employees is represented by a labor union. The production employees at its Bridgend, South Wales facility are organized. Employees working at the facilities in Germany; Valence, France; and Valencia, Spain are represented by statutory Workers Councils which negotiate labor hours and termination rights. The Workers Councils do not directly represent such employees with regard to collective bargaining of wages or benefits. The Company believes that its relationship with all of its employees is satisfactory.

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The establishment of Biomet s domestic orthopedic reconstructive manufacturing operations in north central Indiana, near other members of the orthopedic industry, provides access to the highly skilled machine operators required for the manufacture of Biomet® products. The Company s European manufacturing locations in South Wales, England, France, Spain, Sweden and Germany also provide good sources for skilled manufacturing labor. The Company s Puerto Rican operations principally involve the assembly of purchased components into finished products using a skilled labor force.

Patents and Trademarks

The Company believes that patents and other intellectual property will continue to be of importance in the musculoskeletal industry. Accordingly, management continues to protect technology developed internally and to acquire intellectual property rights associated with technology developed outside the Company. Management enforces its intellectual property rights consistent with the Company s strategic business objectives. The Company does not believe that it has any single patent or license (or series of patents or licenses) that is material to its operations. The Company is not aware of any single patent that, if lost or invalidated, would be material to its consolidated revenues or earnings. The Company currently has more than 1,200 patents and in excess of 650 pending patent applications.

BIOMET is the Company s principal registered trademark throughout the world, and registrations have been obtained or are in process with respect to various other trademarks associated with the Company s products. Unless otherwise noted in this report, all trademarks contained herein are owned by Biomet Manufacturing Corp. or one of its affiliates.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age, business background, positions held with the Company and tenure as an executive officer of each of the Company s executive officers as of July 17, 2007 are set forth below. No family relationship exists among any of the executive officers. Except as otherwise stated, each executive officer has held the position indicated during the last five years. Executive officers are elected annually by the Board to serve for one year and until their successors are elected, subject to resignation, retirement or removal.

Name, Age and Business Experience	Served as Executive Officer Since	Current Position(s) with the Company
Jeffrey R. Binder, 44 President and Chief Executive Officer since February 2007. Prior thereto, he served as Senior Vice President of Diagnostic Operations of Abbott Laboratories from January 2006 to February 2007. He previously served as President of Abbott Spine from June 2003 to January 2006, and President and Chief Executive Officer of Spinal Concepts from 2000 until June 2003.	2007	President and Chief Executive Officer of Biomet, Inc.
Daniel P. Florin, 43 Senior Vice President and Chief Financial Officer since June 5, 2007. Prior thereto, he served as Vice President and Corporate Controller for Boston Scientific Corporation since 2001. Prior to being appointed as Corporate Controller in 2001, he served in financial leadership positions within Boston Scientific Corporation and various business units since July 1995.	2007	Senior Vice President and Chief Financial Officer
J. Pat Richardson, 47 Corporate Vice President Finance since June 7, 2007. Prior thereto, he served as Vice President Finance, Interim Chief Financial Officer and Treasurer of Biomet, Inc. since April 2007. Prior thereto, Mr. Richardson served in financial leadership positions within various Johnson & Johnson business units (Cordis: Vice President, Finance Cardiology from August 2000 to April 2007 and Group Controller Cardiology from April 2004 to August 2006; DePuy Orthopaedics: Vice President, Finance Orthopaedics from June 1997 to April 2004.	2007	Corporate Vice President Finance
James W. Haller, 50 Controller and Vice President Finance of Biomet Orthopedics, Inc. since June 2001.	1991	Controller of Biomet, Inc. and Vice President Finance of Biomet Orthopedics, Inc.
Roger P. van Broeck, 58 Senior Vice President of Biomet, Inc. since June 7, 2007. Prior thereto, he served as Vice President since July 2004, and President of Biomet Europe since March 2004. Prior thereto Chief Executive Officer of BioMer C.V. and Biomet Merck B.V.	2004	Senior Vice President of Biomet, Inc. and President of Biomet Europe
Steven F. Schiess, 47 Senior Vice President of Biomet, Inc. since June 7, 2007.	2005	Senior Vice President of Biomet, Inc. and President of Biomet 3i, Inc. (formerly Implant Innovations, Inc.)

Prior thereto, he served as Vice President and President of Implant Innovations, Inc. since June 2005. Prior thereto, Senior Vice President, Sales and Marketing of Implant Innovations, Inc.

Bradley J. Tandy, 48 Senior Vice President, General Counsel and Secretary since April 2007. Prior thereto, he served as Senior Vice President, Acting General Counsel and Secretary from January 2007 to April 2007 and Senior Vice President, Acting General Counsel, Secretary and Corporate Compliance Officer from March 2006 to January 2007. He previously served as Vice President, Assistant General Counsel and Corporate Compliance Officer.	2006	Senior Vice President, General Counsel and Secretary of Biomet, Inc.

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EXECUTIVE OFFICERS OF THE REGISTRANT, continued

Name, Age and Business Experience	Served as Executive Officer Since	Current Position(s) with the Company
Thomas R. Allen, 54 President of Biomet International since June 2006. Prior thereto, he served as Vice President - The Americas and Asia Pacific for Biomet Orthopedics, Inc.	2006	President of Biomet International
Richard J. Borror, 48 Senior Vice President, Operations since June 7, 2007. Prior thereto, he served as Chief Information Officer and Corporate Vice President for Manufacturing since April 2006. Corporate Vice President for Manufacturing from December 2005 to April 2006. Prior thereto, Vice President - Manufacturing for Biomet Manufacturing Corp.	2006	Senior Vice President, Operations
Gregory W. Sasso, 45 Senior Vice President, Biomet and President, Biomet SBU Operations since June 7, 2007. Prior thereto, he served as Senior Vice President Corporate Development and Communications since June 2006. Prior thereto, Vice President Corporate Development and Communications of Biomet, Inc.	2006	Senior Vice President, Biomet and President, Biomet SBU Operations
Darlene Whaley, 50 Senior Vice President Human Resources since June 2006. Prior thereto, Vice President Human Resources.	2006	Senior Vice President Human Resources of Biomet, Inc.
William C. Kolter, 49 Senior Vice President, Biomet Orthopedics Commercial Operations since June 7, 2007. Prior thereto, he served as President, Biomet Orthopedics, Inc. since December 2005. Prior thereto, Vice President Marketing of Biomet Orthopedics, Inc.	2006	Senior Vice President, Biomet Orthopedics Commercial Operations
Glen A. Kashuba, 44 Senior Vice President and President of Biomet Trauma & Biomet Spine since April 2007. Prior thereto, Mr. Kashuba served as Worldwide President of Cordis Endovascular, a division of Johnson & Johnson. Mr. Kashuba had been with Johnson & Johnson since 1998, also holding the positions of Worldwide President of Codman Neuro Science (from December 2002 to November 2005) and U.S. President of DePuy AcroMed, now known as DePuy Spine.	2007	Senior Vice President of Biomet, Inc. and President of Biomet Trauma & Biomet Spine

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Item 1A. Risk Factors.

The following factors, among others, could cause the Company s future results to differ from those contained in forward-looking statements made in this report and presented elsewhere by management from time to time. Such factors, among others, may have a material adverse effect on the Company s business, financial condition and results of operations. The risks identified in this section are not exhaustive. The Company operates in a dynamic and competitive environment. New risk factors affecting the Company emerge from time to time and it is not possible for management to predict all such risk factors. Further, it is not possible to assess the impact of all risk factors on the Company s business or the extent to which any single factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Given these inherent risks and uncertainties, investors are cautioned not to place undue reliance on forward-looking statements as a prediction of actual results. In addition, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The following discussion of the Company s risk factors speaks only as of the date on which they were made and should be read in conjunction with the consolidated financial statements and related notes included herein. Because of these and other factors, past financial performance should not be considered an indication of future performance.

The Company s future profitability depends on the success of the Company s principal product lines.

Sales of the Company s reconstructive products accounted for approximately 71% of the Company s net sales for fiscal 2007 and approximately 68% of the Company s net sales for fiscal 2006. The Company expects sales of reconstructive products to continue to account for a significant portion of the Company s aggregate sales. Any event adversely affecting the sale of reconstructive products may, as a result, adversely affect the Company s business, results of operations and financial condition.

If the Company is unable to continue to develop and market new products and technologies in a timely manner, the demand for the Company s products may decrease or the Company s products could become obsolete, and the Company s revenue and profitability may decline.

The market for the Company s products is highly competitive and dominated by a small number of large companies. The Company is continually engaged in product development, research and improvement efforts. New products and line extensions of existing products represent a significant component of the Company s growth rate. The Company s ability to continue to grow sales effectively depends on the Company s capacity to keep up with existing or new products and technologies in the musculoskeletal products market. The process of obtaining regulatory approvals to market a medical device, particularly from the FDA and certain foreign governmental authorities, can be costly and time consuming and approvals and clearances might not be granted for future products on a timely basis, if at all. Delays in receipt of, or failure to obtain, approvals and clearances for future products could result in delayed realization of product revenues or in substantial additional costs that could have a material adverse effect on the Company s business or results of operations. In addition, if the Company s competitors new products and technologies reach the market before the Company s products, they may gain a competitive advantage or render the Company s products obsolete. The ultimate success of the Company s product development efforts will depend on many factors, including, but not limited to, the Company s ability to create innovative designs and materials, provide innovative surgical techniques, accurately anticipate and meet customers needs, commercialize new products in a timely manner and manufacture and deliver products and instrumentation in sufficient volumes on time.

Moreover, research and development efforts may require a substantial investment of time and resources before the Company are adequately able to determine the commercial viability of a new product, technology, material or other innovation. Even in the event that the Company is able to successfully develop innovations, they may not produce revenue in excess of the costs of development and may be quickly rendered obsolete as a result of changing customer preferences or the introduction by the Company s competitors of products embodying new technologies or features.

The Company and the Company s customers are subject to substantial government regulation and compliance with these regulations can have a material adverse effect on the Company s business.

The medical devices the Company design, develop, manufacture and market are subject to rigorous regulation by the FDA and numerous other federal, state and foreign governmental authorities. Overall, there appears to be a trend toward more stringent regulation throughout the world, and the Company does not anticipate this trend to dissipate in the near future.

In general, the development, testing, manufacture and marketing of the Company s products are subject to extensive regulation and review by numerous governmental authorities both in the United States and abroad. The regulatory process requires the expenditure of significant time, effort and expense to bring new products to market. In addition, the Company is required to implement and maintain stringent reporting, labeling and record keeping procedures. The medical device industry also is subject to a myriad of complex laws governing Medicare and Medicaid reimbursement and health care fraud and abuse laws, with these laws and regulations being very complex and subject to interpretation. In many instances, the industry does not have the benefit of significant regulatory or judicial interpretation of these laws and regulations. In certain public statements, governmental authorities have taken positions on issues for which little official interpretation was previously available. Some of these positions appear to be inconsistent with common practices within the industry but have not previously been challenged.

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Various federal and state agencies have become increasingly vigilant in recent years in their investigation of various business practices. Governmental and regulatory actions against the Company can result in various actions that could adversely impact the Company s operations, including:

- the recall or seizure of products;
- the suspension or revocation of the authority necessary for the production or sale of a product;
- the suspension of shipments from particular manufacturing facilities;
- the imposition of fines and penalties;
- the delay of the Company s ability to introduce new products into the market;
- the exclusion of the Company s products from being reimbursed by federal and state health care programs (such as Medicare, Medicaid, Veterans Administration health programs and Civilian Health and Medical Program Uniformed Service, or CHAMPUS); and
- other civil or criminal sanctions against the Company.

Any of these actions, in combination or alone, or even a public announcement that the Company are being investigated for possible violations of these laws, could have a material adverse effect on the Company s business, results of operations and financial condition.

In many of the foreign countries in which the Company markets its products, the Company is subject to regulations affecting, among other things: clinical efficacy, product standards, packaging requirements, labeling requirements, import/export restrictions, tariff regulations, duties and tax requirements. Many of the regulations applicable to the Company s devices and products in these countries, such as the European Medical Devices Directive, are similar to those of the FDA. In addition, in many countries the national health or social security organizations require the Company s products to be qualified before they can be marketed with the benefit of reimbursement eligibility. Failure to receive or delays in the receipt of, relevant foreign qualifications also could have a material adverse effect on the Company s business, results of operations and financial condition.

As both the U.S. and foreign government regulators have become increasingly stringent, the Company may be subject to more rigorous regulation by governmental authorities in the future. The Company s products and operations are also often subject to the rules of industrial standards bodies, such as the International Standards Organization. If the Company fails to adequately address any of these regulations, the Company s business will be harmed.

The Company, like other companies in the orthopedic industry, is involved in ongoing investigations by the U.S. Department of Justice, the results of which may adversely impact the Company s business and results of operations.

On March 30, 2005 the Company announced that it had received a subpoena from the U.S. Department of Justice through the U.S. Attorney for the District of New Jersey requesting documents related to any consulting and professional service agreements with orthopedic surgeons using or considering the use of the Company s hip or knee implants for the period January 2002 through March 29, 2005. The Company is aware that similar inquiries were directed to other companies in the orthopedics industry. On July 19, 2006 the Company received a letter from the U.S. Department of Justice through the U.S. Attorney for the District of New Jersey requesting additional documents further to the subpoena issued in March 2005. This letter requested additional documents related to consulting and service agreements for the time period January 1998 through the present, as well as research and other grant agreements for that same time period. Further, the letter requested that the Company provide copies of the agreements identified in the supplemental request on an on-going basis. In addition, the requested information related to

Company-sponsored training events, the selection process used by the Company to identify consultants and researchers, the Company s product design process for hip and knee implants and information on the Company s orthopedic sales force. The Company has subsequently received additional requests for information, both informally and by subpoena.

The U.S. Attorney s Office and the Company have recently begun discussions regarding a potential resolution of this matter. The results of any resolution remain uncertain at this time, but could, among other things, require monetary payments, cause the Company to significantly change some of its existing business practices, and include the potential for additional governmental oversight. Although the Company has cooperated and intends to continue to cooperate fully with the Department of Justice inquiry, discussions are still in preliminary stages with respect to the terms of any proposed resolution and there can be no assurance that the Company will enter into a consensual resolution of this matter with the U.S. Attorney s Office.

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From time to time, the Company has been, and may be in the future, the subject of additional investigations. If, as a result of these investigations, the Company is found to have violated one or more applicable laws, the Company s business, results of operations and financial condition could be materially adversely affected. If some of the Company s existing business practices are challenged as unlawful, the Company may have to change those practices, which could have a material adverse effect on the Company s business, results of operations and financial condition.

The Company conducts a significant amount of the Company s sales activity outside of the United States, which subjects the Company to additional business risks and may cause the Company s profitability to decline due to increased costs.

During fiscal 2007, the Company derived approximately $801 million, or 38% of the Company s net sales, from sales of the Company s products outside of the United States. The Company intends to continue to pursue growth opportunities in sales internationally, which could expose the Company to additional risks associated with international sales and operations. The Company s 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;

diminished protection of intellectual property in some countries outside of the United States;

trade protection measures and import or export licensing requirements;

difficulty in staffing, training and managing foreign operations;

differing legal and labor regulations;

potentially negative consequences from changes in tax laws; and

political and economic instability.

In addition, the Company is subject to risks arising from currency exchange rate fluctuations, which could increase the Company s costs and may cause the Company s profitability to decline. The U.S. dollar value of the Company s foreign-generated revenues varies with currency exchange rate fluctuations. Measured in local currency, the majority of the Company s foreign-generated revenues were generated in Europe. Significant increases in the value of the U.S. dollar relative to foreign currencies could have a material adverse effect on the Company s results of operations. The Company s consolidated net sales were positively affected by approximately 2% during fiscal 2007, as a result of the impact of foreign currency translations. At the present time, the Company does not engage in hedging transactions to protect against uncertainty in future exchange rates between any particular foreign currency and the U.S. dollar.

Any of these factors may, individually or as a group, have a material adverse effect on the Company s business, results of operations and financial condition.

Sales may decline if the Company s customers do not receive adequate levels of reimbursement from third-party payors for the Company s products and if certain types of healthcare programs are adopted in the Company s key markets.

In the United States, healthcare providers that purchase the Company s products (e.g., hospitals, physicians, dentists and other health care providers) generally rely on payments from third-party payors (principally federal Medicare, state Medicaid and private health insurance plans) to cover all or a portion of the cost of the Company s musculoskeletal products. 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 the event that third-party payors deny coverage or reduce their current levels of reimbursement, the Company may be unable to sell certain products on a profitable basis, thereby materially adversely impacting the Company s results of operations. Further, third-party payors are continuing to carefully review their coverage policies with respect to existing and new therapies and can, without notice, deny coverage for treatments that may include the use of the Company s products.

In addition, some healthcare providers in the United States have adopted, or are considering the adoption of, a managed care system in which the providers contract to provide comprehensive healthcare for a fixed cost per person. Healthcare providers in a managed care system may attempt to control costs by authorizing fewer elective surgical procedures, including joint reconstructive surgeries, or by requiring the use of the least expensive implant available. In response to these and other pricing pressures, the Company s competitors may lower the prices for their products. The Company may not be able to match the prices offered by the Company s competitors, thereby adversely impacting the Company s results of operations and future prospects. Further, in the event that the United States considers the adoption of a national healthcare system in which prices are controlled and patient care is managed by the government, such regulation could have a material adverse effect on the Company s business, results of operations and financial condition.

Outside of the United States, reimbursement systems vary significantly from country to country. In the majority of the international markets in which the Company s products are sold, government-managed healthcare systems mandate the reimbursement rates and methods for medical devices and procedures. If adequate levels of reimbursement from third-party payors outside of the United States are not obtained, international sales of the Company s products may decline. Many foreign markets, including Canada, and some European and Asian countries,

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have tightened reimbursement rates. The Company s ability to continue to sell certain products profitably in these markets may diminish if the government-managed healthcare systems continue to reduce reimbursement rates.

The Company is subject to cost-containment efforts of group purchasing organizations, which may have a material adverse effect on the Company s results of operations and financial condition.

Many customers of the Company s products have joined 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 the Company is not one of the providers selected by a group purchasing organization, affiliated hospitals and other members may be less likely to purchase the Company s products, and if the group purchasing organization has negotiated a strict compliance contract for another manufacturer s products, the Company may be precluded from making sales to members of the group purchasing organization for the duration of the contractual arrangement. The Company s failure to respond to the cost-containment efforts of group purchasing organizations may cause the Company to lose market share to the Company s competitors and could have a material adverse effect on the Company s sales, results of operations and financial condition.

Loss of the Company s key management and other personnel, or an inability to attract such management and other personnel, could impact the Company s business.

The Company depends on the Company s senior managers and other key personnel to run the Company s business and on technical experts to develop new products and technologies. The loss of any of these senior managers or other key personnel could adversely affect the Company s operations. Competition for qualified employees is intense, and the loss of qualified employees or an inability to attract, retain and motivate additional highly skilled employees required for the management, operation and expansion of the Company s business could hinder the Company s ability to expand, conduct research and development activities successfully and develop marketable products.

Increased costs of retaining existing independent sales agents of the Company s products have negatively affected the Company s results of operations and if the Company fails to retain the Company s existing relationships with these independent sales agents or establish relationships with different agents, the Company s results of operations may be negatively impacted.

The Company s revenues and profitability depend largely on the ability of independent sales agents to sell the Company s products to customers. Typically, these agents have developed long-standing relationships with the Company s customers and provide the Company s customers with the necessary training and product support relating to the Company s products. The average tenure of the Company s independent sales agents within Biomet Orthopedics, Inc. is 9 years.

Following the announcement of the Merger Agreement, in an attempt to exploit the uncertainty related to the pending transaction, the Company s direct competitors approached the independent sales agents the Company works with and offered them incentives to discontinue their existing relationships with the Company. In an effort to ensure the continuity of its relationships with the independent third-party distributors who represent Biomet Orthopedics, Inc., the Company incurred expenses of $39,200,000 and approximately $33,000,000 in fiscal year 2007 and the first quarter of fiscal year 2008, respectively, which negatively affected its results of operations for these periods. The Company does not currently expect to incur additional significant expenses related to modifying these relationships subsequent to the first quarter of fiscal year 2008. In addition, the Company and its subsidiary, Biomet Orthopedics, Inc., recently initiated legal proceedings in Marion County, Indiana against a direct competitor and certain former independent sales agents related to the foregoing. For further information on this proceeding see Item 3. Legal Proceedings - Other Litigation. If the Company fails to retain it s existing relationships with these agents or establish relationships with different agents, the Company s results of operations may be negatively impacted.

The Company s business may be harmed as a result of litigation.

The Company s involvement in the manufacture and sale of medical devices creates exposure to significant risk of product liability claims, particularly in the United States. In the past, the Company has received product liability claims relating to the Company s products and anticipate that it will continue to receive claims in the future, some of which could have a material adverse impact on the Company s business. In addition, the Company could experience a material design or manufacturing failure in the Company s products, a quality system failure, other safety issues or heightened regulatory scrutiny that would warrant a recall of some of the Company s products. The Company s existing product liability insurance coverage may be inadequate to satisfy liabilities the Company might incur. If a product liability claim or series of claims is brought against the Company for uninsured liabilities or is in excess of the Company s insurance coverage limits, the Company s business could suffer and the Company s results could be materially adversely impacted.

In addition, the musculoskeletal products industry is highly litigious with respect to the enforcement of patents and other intellectual property rights. In some cases, intellectual property litigation may be used to gain a competitive advantage. The Company has in the past and may in the future become a party to lawsuits involving patents or other intellectual property. A legal proceeding, regardless of the outcome, could put pressure on the Company s financial resources and divert the time, energy and efforts of the Company s management.

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A natural or man-made disaster could have a material adverse effect on the Company s business.

The Company has approximately 20 manufacturing operations located throughout the world. However, a significant portion of the Company s products are produced at and shipped from the Company s facility in Warsaw, Indiana. In the event that this facility is severely damaged or destroyed as a result of a natural or man-made disaster, the Company would be forced to shift production to the Company s other facilities and/or rely on third-party manufacturers. Such an event could have a material adverse effect on the Company s business prospects, results of operations and financial condition.

Risks Relating to the Stock Options Investigation and the Merger

The Company s review of historical stock option granting practices and restatement of consolidated financial statements may result in future litigation or regulatory inquiries, which could harm the Company s financial results.

On December 18, 2006 and March 30, 2007, the Company announced preliminary and updated reports from the Special Committee following the publication of an analyst report suggesting that certain historical stock option grants took place on dates when the Company s stock price was trading at relatively low prices and the filing of two shareholder derivative lawsuits alleging improper backdating of stock options. Based upon the analysis of these reports and relevant accounting literature, including Staff Accounting Bulletin No. 99, the Company s Audit Committee determined on March 30, 2007 that the Company should amend the Company s annual report on Form 10-K for the fiscal year ended May 31, 2006 and the Quarterly Report on Form 10-Q for the period ended August 31, 2006 to reflect the restatement of the consolidated financial statements reflected therein (fiscal years 2006, 2005 and 2004 and periods ended August 31, 2006 and 2005) and related disclosures reflected therein.

On May 25, 2007, the Company s Board of Directors received and discussed the updated findings contained in the Special Committee s final report, which concluded that:

- the Company s written stock option plans were treated by the Company s management, and the stock option committee, as formalities concerning the manner in which individual stock option grants were to be approved, resulting in a failure to abide by the terms of the plans;
- the Company failed to receive appropriate legal or accounting advice from the Company s former general counsel and the chief financial officer related to the Company s stock option program and, as a result, relevant legal and accounting rules were not followed;
- the Company failed to put in place and implement internal controls to manage the Company s stock option program, including failing to devote sufficient resources to the administration of the Company s stock option program;
- the Company failed to prepare and maintain appropriate books and records documenting the administration of the Company s stock option program, specifically with regard to the approval of individual stock option grants;
- most stock options issued by the Company were dated on dates other than the date of grant of those options, as that date was defined by the stock option plans;
- the Company engaged in purposeful opportunistic dating (and, therefore, pricing) of stock options; and
- as a result of these deficiencies, certain of the Company s proxy statements were inaccurate.

The Company s review of historical stock option granting practices has required it to incur additional expenses for legal, accounting, tax and other professional services, and could in the future adversely affect the Company s business, results of operations, financial condition and cash flows, including by virtue of exposing the Company to greater risks associated with litigation, regulatory and other governmental proceedings. The Company has also incurred (or expects to incur) expenses in connection with certain corrective actions approved by its Compensation and Stock Option Committee with respect to misdated or mispriced stock options, including (a) payments to compensate certain former option holders whose option exercise prices the Company increased to the fair market value of the shares underlying such options on the measurement date (as that term is defined in Statement of Financial Accounting Standards No. 123 (*SFAS 123(R)*) for the options and (b) payments to the IRS on behalf of certain option holders (and reimbursement of one of the Company s executive officers) to cover taxes and penalties payable by such individuals as a result of their exercise of misdated or mispriced stock options prior to the date the Company amended such options to bring them into compliance with (and thereby avoid the taxes and penalties imposed under) section 409A of the Internal Revenue Code of 1986, as amended, or the Code, as well as gross-up payments to such individuals for any taxes they incur as a result of such payments. In connection with the closing of the Offer, all outstanding options, each an Option, to purchase Shares under Biomet s stock plans, vested or unvested, were cancelled and each Option holder was paid an amount in cash equal to the excess, if any, of the Offer Price over the applicable option exercise price for each Share subject to an Option, less any required withholding taxes. While the Company believes that it has made appropriate judgments in determining the correct measurement dates for the approximately 17,000 stock option awards in question, the SEC or other governmental agencies may disagree with the manner in which the Company has accounted for and reported, or not reported, the financial and other impacts of past stock option grant measurement date errors, and there is a risk that any such inquiry could lead to circumstances in which the Company may have to further restate the Company s prior financial statements, amend prior SEC filings, or otherwise take other actions not currently contemplated by the Company. Any such circumstance could also lead to future delays in filing the Company s subsequent SEC reports and delisting of the Company s Shares from The NASDAQ Global Select Market. The Company cannot give assurance that any future litigation

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or regulatory action will result in the same conclusions as those reached by the Audit Committee. The conduct and resolution of these matters may be time consuming, expensive and distracting from the conduct of the Company s business. Furthermore, if the Company is subject to adverse findings in any of these matters, the Company could be required to pay damages, penalties or additional taxes or have other remedies imposed upon it, which could harm the Company s business, results of operations, financial condition and cash flows.

The Company has been named as a party to a number of shareholder derivative lawsuits relating to the Company s historical stock option grant practices, and the Company may be named in additional lawsuits in the future. This litigation could become time consuming and expensive and could result in the payment of significant judgments and settlements, which could have a material adverse effect on the Company s results of operations and financial condition.

In connection with the Company s historical stock option granting practices and resulting restatements, a number of derivative actions were filed against certain of the Company s current and former directors and officers, purporting to assert claims on the Company s behalf. On May 25, 2007, the Board received and discussed an updated report from its Special Committee, which concluded that pursuing these shareholder derivative lawsuits was not in the Company s best interests. Under Indiana law, the Special Committee s determination may be binding on the pending shareholder derivative lawsuits and result in dismissal of these lawsuits. The Company cannot, however, predict the outcome of these current lawsuits, nor can the Company predict the amount of time and expense that will be required to resolve them. There may also be additional lawsuits of this nature filed in the future. Defending the current lawsuits and any additional shareholder derivative lawsuits may become time consuming and expensive, and an unfavorable outcome in any of these cases could have a material adverse effect on the Company s business, results of operations and financial condition.

In addition, the issues arising from the Company s previous retroactive pricing of stock options may make it more difficult to obtain director and officer insurance coverage in the future. If the Company is able to obtain this coverage, it could be significantly more costly than in the past, which could have an adverse effect on the Company s financial results and cash flows. As a result of this and related factors, the Company s directors and officers could face increased risks of personal liability in connection with the performance of their duties. Consequently, the Company may have difficulty attracting and retaining qualified directors and officers, which could adversely affect the Company s business.

The Company is subject to litigation related to the Merger.

On December 20, 2006, a purported class-action lawsuit captioned *Long, et al. v. Hann, et al.,* was filed in Indiana State court in the County of Kosciusko. The *Long* action names as defendants each member of the Company s Board of Directors at the time, Blackstone Capital Partners V L.P., Goldman Sachs Investments Ltd., KKR 2006 Fund L.P., and TPG Partners V, L.P. In March, 2007, the defendants filed motions to dismiss the plaintiff s complaint, and these motions are currently pending before the court. On January 2, 2007, a purported class-action lawsuit captioned *Gervasio v. Biomet, Inc., et al.,* was filed in Supreme Court for the State of New York, New York County. The *Gervasio* complaint named as defendants the Company, each member of the Company s Board of Directors at the time, The Blackstone Group L.P. and Kohlberg Kravis Roberts & Co. The *Gervasio* complaint also purported to name as defendants Goldman Sachs Capital Partners and Texas Pacific Group, neither of which is a legally existing entity. On March 26, 2007, the court granted defendants motion to dismiss the *Gervasio* action. A third purported class-action lawsuit captioned *Corry* v. *Biomet, Inc., et al.,* was filed in New York state court in the County of New York on January 9, 2007, and was voluntarily discontinued on February 14, 2007. On May 31, 2007, the Company entered into a memorandum of understanding regarding the settlement of these purported class action lawsuits relating to the Merger. However, additional lawsuits pertaining to the Merger could be filed in the future.

Any conclusion of this litigation in a manner adverse to the Company could have a material adverse effect on the Company s business, results of operations, financial condition and cash flows. In addition, the cost to the Company of defending the litigation, even if resolved in the Company s favor, could be substantial. Such litigation could also substantially divert the attention of the Company s management and the Company s resources in general. Uncertainties resulting from the initiation and continuation of this litigation could harm the Company s ability to compete in the marketplace.

Biomet s controlling shareholder may have interests that conflict with the interests of other stakeholders.

LVB beneficially owns over 80% of Biomet s Common Shares. Subject to the terms of the Merger Agreement, LVB generally will have the ability to elect substantially all of the members of Biomet s Board of Directors and will generally be able to select its management team, determine its corporate and management policies and make decisions relating to fundamental corporate actions. The directors elected by LVB generally will have the authority to make decisions affecting Biomet s capital structure, including the issuance of debt and declaration of dividends, and to authorize transactions. These decisions could enhance LVB s equity investment while involving risks to the interests of other stakeholders.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

The Company s principal executive offices are at 56 East Bell Drive, Warsaw, Indiana. In addition, the Company maintains more than 30 other manufacturing facilities, offices and warehouse facilities in various countries, including Canada, Europe, Asia Pacific and Latin America. The Company believes that all of its facilities are adequate, well-maintained and suitable for the development, manufacture, distribution and marketing of all its products. As of May 31, 2007, the Company owned 17 facilities and leased five facilities. The following are the Company s principal properties as of May 31, 2007:

FACILITY	LOCATION	SQUARE FEET	OWNED/ LEASED
Corporate headquarters of Biomet, Inc.; manufacturing, storage and research and development facilities of Biomet Manufacturing Corp.; distribution center and offices of Biomet Orthopedics, Inc.	Warsaw, Indiana	517,200	Owned
Administrative, manufacturing and distribution facility of EBI, L.P. and administrative offices of Electro-Biology, Inc.	(1) Parsippany, New Jersey[1]	63,000	Owned
		209,700	Owned
	(2) Parsippany, New Jersey		
Administrative, manufacturing and distribution facility of Biomet Microfixation, Inc.	Jacksonville, Florida	82,500	Owned
Office, manufacturing and distribution facility of Biomet 3i, Inc.	(1) Palm Beach Gardens, FL	117,000	Owned
		69,000	Owned
	(2) Palm Beach Gardens, FL[2]		
Office and manufacturing facilities of Biomet Sports Medicine, Inc.	(1) Ontario, California	35,400	Owned
		14,400	Leased
	(2) Redding, California		
Office and manufacturing facility of Electro-Biology, Inc.	Guaynabo, Puerto Rico	34,700	Owned
Office, manufacturing and warehouse facility of Biomet France Sarl	Valence, France	86,100	Owned
Office, manufacturing and warehouse facilities of Biomet Deutschland GmbH	Berlin, Germany	49,900	Owned
Administrative offices of Biomet Europe B.V. and office and warehouse facility of Biomet Nederland BV, Walter Lorenz Surgical Europe B.V. and Biomet 3i Netherlands B.V.	Dordrecht, The Netherlands	37,700	Owned
Office and manufacturing facility of Biomet Spain Orthopedics S.L.	Valencia, Spain	83,517	Owned
Office, manufacturing and warehouse facilities of Biomet Cementing Technologies AB	Sjöbo, Sweden	24,200	Owned
Manufacturing and administrative facilities of Biomet UK Ltd.	(1) Bridgend, South Wales		
		105,200	Owned
	(2) Swindon, England	53,400	Owned

[1] Includes 42,000 square feet of space in this facility that is leased to other parties.

[2] Includes 23,000 square feet of space in this facility that is leased to other parties.

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Item 3. Legal Proceedings.

U.S. Department of Justice Investigations.

On March 30, 2005 the Company announced that it had received a subpoena from the U.S. Department of Justice through the U.S. Attorney for the District of New Jersey requesting documents related to any consulting and professional service agreements with orthopedic surgeons using or considering the use of the Company s hip or knee implants for the period January 2002 through March 29, 2005. The Company is aware that similar inquiries were directed to other companies in the orthopedics industry. On July 19, 2006 the Company received a letter from the U.S. Department of Justice through the U.S. Attorney for the District of New Jersey requesting additional documents further to the subpoena issued in March 2005. This letter requested additional documents related to consulting and service agreements for the time period January 1998 through the present, as well as research and other grant agreements for that same time period. Further, the letter requested that the Company provide copies of the agreements identified in the supplemental request on an on-going basis. In addition, the requested information related to Company-sponsored training events, the selection process used by the Company to identify consultants and researchers, the Company s product design process for hip and knee implants and information on the Company s orthopedic sales force. The Company has subsequently received additional requests for information, both informally and by subpoena.

The U.S. Attorney s Office and the Company have recently begun discussions regarding a potential resolution of this matter. The results of any resolution remain uncertain at this time, but could, among other things, require monetary payments, cause the Company to significantly change some of its existing business practices, and include the potential for additional governmental oversight. Although the Company has cooperated and intends to continue to cooperate fully with the Department of Justice inquiry, discussions are still in preliminary stages with respect to the terms of any proposed resolution and there can be no assurance that the Company will enter into a consensual resolution of this matter with the U.S. Attorney s Office. Given the preliminary nature of these discussions, the Company does not believe that a range of loss is estimable; therefore, the Company has not accrued for any losses with regard to this inquiry.

In June 2006, the Company received a federal grand jury subpoena issued at the request of the U.S. Department of Justice, Antitrust Division, requesting documents from January 2001 through June 2006 regarding possible violations of federal criminal law, including possible violations of the antitrust laws, relating to the manufacture and sale of orthopedic implant devices, or the subpoena. The Company is aware of similar subpoenas directed to other companies in the orthopedic industry. The Company has cooperated and intends to continue to fully cooperate with the Department of Justice investigation. The result of this investigation may not be known for several years. However, the scope of the subpoena has currently been narrowed to a specific geographic region and specific product lines. It is the Company s belief that the other orthopedic companies that received similar subpoenas have received similar guidance. It is the Company s belief that the investigation was prompted by an unsolicited e-mail sent by a representative of one of the Company s competitors that proposed a common pricing strategy in connection with a particular hospital. This e-mail was received by an independent sales representative of an independent distributor for Biomet Orthopedics, but it was never transmitted to the Company. Neither the Company, the Company s independent distributor, nor the Company s independent sales representative took any action in response to the e-mail, and the Company believes that no anticompetitive activity took place as a result of it. The Company requires compliance by the Company s employees and the Company s independent distributors with the Company s Code of Business Conduct and Ethics and with applicable antitrust laws. The information provided herein is limited to the information available to the Company at the present time and the Company cannot offer any assurances as to the scope and final outcome of this investigation. On an issue related to the subpoena the Company has received two complaints in class action lawsuits alleging violations of the Sherman Antitrust Act. In addition, the Company is aware of other complaints that have been filed, but not served on the Company. The complaints also named various other companies in the orthopedic industry as defendants. The Company intends to vigorously defend this matter and believes that it has meritorious defenses to the claims being asserted.

In May 2007, the Company received a subpoena from the U.S. Department of Justice through the U.S. Attorney for the Southern District of West Virginia requesting documents generally relating to a certain number of products manufactured, marketed and sold by the Company s subsidiary EBI, L.P. for the time period from January 1999 through the present. In June 2007, the Company received a second administrative subpoena from the U.S. Attorney for the Southern District of West Virginia requesting documents relating to a specific physician s assistant. The Company intends to fully cooperate with the request of the Department of Justice. Further, the Company can make no assurances as to the time or resources that will be needed to devote to this inquiry or its final outcome.

Litigation Relating to Past Stock Option Grant Practices.

On September 21, 2006, two shareholder-derivative complaints were filed against certain of the Company s current and former officers and directors in Kosciusko Superior Court I in Kosciusko Country, in the State of Indiana. The complaints, captioned *Long v. Hann, et al.,* and *Thorson v. Hann, et al.,* alleged violations of state law relating to the issuance of certain stock option awards by the Company dating back to 1996. Both complaints sought unspecified money damages as well as other equitable and injunctive relief. These two cases were consolidated under the caption *In re Biomet, Inc. Derivative Litigation,* and on January 19, 2007, plaintiffs filed an amended complaint that made additional allegations based on the Company s December 18, 2006 disclosures related to stock option awards, including allegations that the defendants

sought to sell the company in order to escape liability for their conduct, and that they did so at a devalued price, thus further breaching their fiduciary duties to shareholders. On February 16, 2007, defendants filed a motion to dismiss plaintiffs amended complaint, which is currently pending with the court.

On December 11, 2006, a third shareholder-derivative complaint captioned *International Brotherhood of Electrical Workers Local 98 Pension Fund v. Hann, et al.,* No. 06 CV 14312, was filed in federal court in the Southern District of New York. The IBEW case makes allegations and claims similar to those made in the Indiana litigation, in addition to purporting to state three derivative claims for violations of the federal securities laws. On February 15, 2007, defendants filed a motion to dismiss the plaintiff s complaint. On April 11, 2007, plaintiffs filed a

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motion for partial summary judgment claiming that the disclosures in the Company s April 2, 2007 Form 8-K filing and press release regarding the Company s historical stock options granting practices constitute admissions sufficient to establish defendants liability on certain of plaintiffs claims. Both motions are currently pending with the court.

Pursuant to Indiana law and provisions of the Company s article of incorporation, the Company is advancing reasonable expenses, including attorneys fees, incurred by the Company s current and former directors and officers in defending these lawsuits.

On May 25, 2007, the Board received and discussed an updated report from its Special Committee, which concluded that pursuing these three shareholder-derivative complaints was not in the Company s best interests. Under Indiana law, the Special Committee s determination may be binding on the pending shareholder-derivative claims and result in the dismissal of these complaints.

Litigation Relating to the Merger.

On December 20, 2006, a purported class-action lawsuit captioned *Long, et al.* v. *Hann, et al.,* was filed in Indiana State court in the County of Kosciusko. The lawsuit names as defendants each member of the Company s Board of Directors at the time, Dane Miller, Ph.D., and Blackstone Capital Partners V L.P., KKR 2006 Fund L.P., Goldman Sachs Investments Ltd., and TPG Partners V, L.P. The complaint alleges, among other things, that the defendants breached, or aided and abetted the breach of, fiduciary duties owed to the Company s shareholders by the Company s directors in connection with the Company s entry into the Merger Agreement. Among the purported fiduciary breaches alleged in the complaint is that the Company s director defendants knew that the only way they could escape liability for their stock option granting improprieties would be to sell the Company, thus eliminating their liability. The complaint seeks, among other relief, class certification of the lawsuit, a declaration that the Merger Agreement was entered into in breach of the fiduciary duties of the defendants, an injunction preventing the defendants from proceeding with the Merger unless and until the defendants implement procedures to obtain the highest possible sale price, an order directing the defendants to exercise their fiduciary duties to obtain a transaction which is in the best interests of the Company s shareholders until the process for a sale of Biomet is completed and the highest price is obtained, an order directing the defendants to exercise their fiduciary duty to disclose all material information in their possession concerning the Merger prior to the shareholder vote, including the Company s fiscal 2007 second quarter financial results, imposition of a constructive trust upon any benefits improperly received by the defendants, an award of attorneys fees and expenses, and such other relief as the court might find just and proper. On March 29 and 30, 2007, the defendants filed motions to dismiss the plaintiffs complaint, and these motions are currently pending before the court.

On January 2, 2007, a purported class action lawsuit captioned *Gervasio v. Biomet, Inc., et al.,* was filed in the Supreme Court for the State of New York, New York County. A virtually identical action was filed on January 9, 2007, captioned *Corry* v. *Biomet, Inc., etal.,* in the same court. Both of these lawsuits named as defendants Biomet, each member of its Board of Directors at the time, Dane Miller, Ph.D., The Blackstone Group L.P., Kohlberg Kravis Roberts & Co., Goldman Sachs Capital Partners, and Texas Pacific Group. The lawsuits made essentially the same claims and sought the same relief as in the Long action described above. On January 29, 2007, defendants filed a joint motion to dismiss *Gervasio.* On February 14, 2007, the plaintiff in *Corry* voluntarily discontinued his lawsuit and informed defendants that he intended to intervene in *Gervasio.* On March 26, 2007, the court granted defendants motion to dismiss *Gervasio.*

Pursuant to Indiana law and provisions of the Company s articles of incorporation, the Company is advancing reasonable expenses, including attorneys fees, incurred by the Company s current and former directors and officers in defending these lawsuits, with the exception of Dane Miller, Ph.D., whose status as a defendant does not arise from his status as a former director or officer.

On May 31, 2007, the Company entered into a memorandum of understanding regarding the settlement of class action lawsuits that were filed on behalf of the Company s shareholders following the announcement of the proposed Merger. Each of Biomet and the other defendants denies all of the allegations in these lawsuits, including any allegation that its current disclosures with regard to the pending Merger are false, misleading or incomplete in any way. Nevertheless, without admitting any liability or wrongdoing, the Company and other defendants in these cases have agreed in principle to settle them in order to avoid the potential cost and distraction of continued litigation and to eliminate any risk of any delay to the closing of the Merger posed by these lawsuits. Such settlement is subject to execution and delivery of definitive documentation, the closing of the Merger and court approval. If the settlement becomes effective, the lawsuits will be dismissed with prejudice.

Pursuant to the terms of the settlement, the Company has agreed to make available meaningful additional information, including financial information, to its shareholders. Such additional information is contained in the Company s Current Report on Form 8-K filed on May 31, 2007. In addition, the Sponsor Group has agreed to cause the Company (or the Company s successors) to pay the legal fees and expenses of plaintiffs counsel, in an amount of $600,000 in the aggregate, subject to the approval by the court and the closing of the Merger. This payment will not affect the amount of consideration to be paid in the Merger. The details of the settlement will be set forth in a notice to be sent to the Company s shareholders prior to a hearing before the court to consider the settlement. The settlement will not affect the consideration to be paid in the Merger to the Company s shareholders in connection with the proposed Merger.

Additional lawsuits pertaining to the Merger could be filed in the future.

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Nasdaq Delisting Proceedings.

The Company s common shares are currently traded on the NASDAQ Global Select Market under the symbol BMET. On January 9, 2007, the Company filed a Form 12b-25 with the SEC stating that it did not anticipate filing its quarterly report on Form 10-Q for the second quarter of fiscal year 2007 on or before the fifth calendar day following the prescribed due date. On January 11, 2007, the Company received a Staff Determination letter from The Nasdaq Stock Market indicating that the Company is not in compliance with the filing requirements for continued listing under Marketplace Rule 4310(c)(14). The letter was issued in accordance with NASDAQ procedures due to the Company s inability to file its quarterly report on Form 10-Q for the second quarter of fiscal year 2007 by the prescribed due date.

A hearing was held on March 1, 2007, at which the Company requested an exception within which to regain compliance with the NASDAQ s filing requirements. On April 11, 2007, a NASDAQ Listing Qualifications Panel (the *Panel)* granted the Company s request for an exception and continued listing on the NASDAQ Global Select Market, notwithstanding the Company s inability to timely file its quarterly report on Form 10-Q for the second quarter of fiscal 2007. On May 22, 2007, the Company requested an extension of the May 29, 2007 deadline until June 12, 2007.

On April 12, 2007, the Company announced that it received an additional notice of non-compliance from The Nasdaq Stock Market, pursuant to Marketplace Rule 4310(c)(14), due to the previously announced delay in filing its quarterly report on Form 10-Q for the third quarter of fiscal 2007. In the notice, the Company was invited to make an additional submission to the Panel addressing its plans for making the third quarter filing. On April 19, 2007, the Company requested an exception until June 12, 2007 to file its quarterly report on Form 10-Q for the third quarter of fiscal 2007.

On May 29, 2007, the Panel made a determination with respect to the Company s April 19, 2007 and May 22, 2007 requests. In its May 29, 2007 determination, the Panel granted the Company s request to extend the time to file the Company s reports on Form 10-Q for the second and third quarters of fiscal 2007, and to complete all required restatements, to on or before July 11, 2007. The Panel added that notwithstanding this extension it expects the Company to comply with the terms of the exception by the June 12, 2007 date referenced in the Company s April 19, 2007 and May 22, 2007 requests. On June 7, 2007, the Company received a letter from the Panel stating that Biomet has evidenced compliance with the Panel s prior decisions and all applicable Nasdaq Marketplace Rules, and that the Panel has determined to continue the listing of Biomets common shares on the NASDAQ Global Select Market.

Other Litigation.

In February 2006, SDGI Holdings, Inc. and Medtronic Sofamor Danek, Inc. (collectively referred to herein as Medtronic) brought an action against EBI and Biomet alleging infringement of seven patents. Specifically, Medtronic alleges that the patents are infringed by certain components of the Company s Vueloc® Anterior Cervical Plate System, as well as instruments and surgical implantation methods associated with the Company s Array® Spinal System. Medtronic s complaint did not seek a specific amount of damages, but does seek to enjoin the Company from manufacturing, selling and/or distributing the allegedly infringing products. The Company filed a counterclaim seeking a finding of noninfringement of the patents at issue and a finding that certain of the patents are invalid and unenforceable. The litigation is in the early stages of discovery. The Company is vigorously defending this matter and intends to continue to do so.

The Company and its subsidiary, Biomet Orthopedics, Inc., recently initiated legal proceedings against Zimmer US, Inc. (Zimmer), certain former Biomet distributors, and David Montgomery, a former employee of the Company who currently works for Zimmer. The thirteen count lawsuit filed in Marion County, Indiana alleges, among other things, that Zimmer and Mr. Montgomery attempted to create an unfair market advantage by engaging in a campaign to misappropriate Biomet confidential information, to interfere with Biomet s contractual relations with distributors and to attempt to buy the assets of most of Biomet s distributors (including the Company s surgical instruments) throughout the United States. Further, the lawsuit alleges that the limited number of distributors who accepted Zimmer s offer are in violation of their contractual obligations to the Company. Although nearly all of the Company s distributors rejected Zimmer s offers and have remained with the Company, and although no amount of money damages can completely compensate the Company for the losses it has sustained as a result of defendants conduct, the Company is nonetheless seeking to recover compensatory damages that are attributable to financial and other resources spent on signing new agreements with its sales force. To the extent the Company sustained damages as a result of its former distributors agreeing to purportedly sell their assets to Zimmer, the Company is seeking to recover lost profits and other damages as well. In addition, the Company is seeking to recover punitive damages from the defendants.

In a related matter, the Company brought suit against a former distributor for Biomet Orthopedics who, in violation of his contractual and other obligations to the Company under agreements stretching back to 1994, sold the assets of his distributorship to Zimmer in an apparent effort to avoid his contractual obligations to the Company. The complaint, now pending in federal district court in Indiana, asserts five causes of action that include breach of contract, unjust enrichment, and statutory wrongs. Among other things, the complaint seeks injunctive relief and compensatory and punitive damages. On July 16, 2007 a temporary restraining order was entered against the former Biomet distributor. Prior to

the filing of the suit described above, that former Biomet distributor sued one of his former employees, who decided to continue to represent Biomet products in the future as he has for nearly ten years. The suit brought against this employee by the former Biomet distributor who sold his assets to Zimmer claims, among other things, that the former employee is violating his non-competition agreement with the former Biomet distributor by continuing to sell the same Biomet products he sold while employed by the former Biomet distributor. The suit also seeks, among other forms of relief, an injunction and compensatory and punitive damages.

There are various other claims, lawsuits, disputes with third parties, investigations and pending actions involving various allegations against the Company incident to the operation of its business, principally product liability and intellectual property cases. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be resolved unfavorably to the Company. The Company accrues for losses that are deemed to be probable and subject to reasonable estimate. Based on the advice of the Company s counsel in these matters, management believes that the ultimate outcome of these matters and any liabilities in excess of amounts provided will not have a material adverse impact on the Company s consolidated financial statements taken as a whole.

Item 4. Submission of Matters to a Vote of Security Holders.

Not Applicable.

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PART II

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

The following table shows the quarterly range of high and low sales prices for the Company s Common Shares as reported by The Nasdaq Stock Market for each of the three most recent fiscal years ended May 31. The approximate number of shareholders of record as of July 25, 2007, was 3,150.

		High	Low
2007			
	Fourth	$ 43.75	$ 41.94
	Third	42.67	37.40
	Second	39.25	32.00
	First	36.07	30.22
2006			
	Fourth	$ 39.45	$ 33.64
	Third	38.66	34.90
	Second	39.09	32.50
	First	39.11	33.64
2005			
	Fourth	$ 43.32	$ 34.90
	Third	49.64	40.53
	Second	49.50	43.13
	First	49.60	39.69

The Company paid cash dividends of $0.30, $0.25 and $0.20 per share during fiscal years ending May 31, 2007, 2006 and 2005, respectively.

During the year ended May 31, 2007, the Company had two publicly-announced share repurchase programs outstanding. The first, announced June 30, 2005, approved the purchase of 2,500,000 shares to be automatically purchased daily in equal increments over a twelve-month period. The remaining shares available under this plan were purchased during the three months ended August 31, 2006. The second, announced December 21, 2005, approved the purchase of shares up to $100 million in open market or privately negotiated transactions expiring December 20, 2006. The Company did not repurchase any shares during the fiscal quarter ended May 31, 2007. When the plan expired on December 20, 2006, $45,861,743 remained available to purchase additional shares under the December 21, 2005 share repurchase plan.

Information regarding securities authorized for issuance under Biomet s equity compensation plans is included in Part III, Item 12 of this Annual Report on Form 10-K under the caption Securities Authorized for Issuance Under Equity Compensation Plans.

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Item 6. Selected Financial Data.

Income Statement Data[1]

Years ended May 31,

(in thousands, except per share amounts)

	2007	2006	2005	2004	2003
Net sales	**$ 2,107,428**	$ 2,025,739	$ 1,879,950	$ 1,615,253	$ 1,390,300
Cost of sales	**642,270**	582,106	533,355	462,166	408,091
Gross profit	**1,465,158**	1,443,633	1,346,595	1,153,087	982,209
Selling, general and administrative expenses	**881,140**	750,259	696,302	600,208	501,972
Research and development expense	**94,416**	84,988	80,213	64,964	56,901
In-process research and development			26,020	1,250	
Other charges/(credits)					(5,800)
Operating income	**489,602**	608,386	544,060	486,665	429,136
Other income, net	**11,970**	2,609	2,409	14,052	12,675
Income before income taxes and minority interest	**501,572**	610,995	546,469	500,717	441,811
Provision for income taxes	**165,680**	205,087	197,096	173,322	153,641
Income before minority interest	**335,892**	405,908	349,373	327,395	288,170
Minority interest				7,071	8,081
Net income	**$ 335,892**	$ 405,908	$ 349,373	$ 320,324	$ 280,089
Earnings per share:					
Basic	**$ 1.37**	$ 1.64	$ 1.38	$ 1.25	$ 1.08
Diluted	**1.37**	1.63	1.37	1.25	1.07
Shares used in the computation of earnings per share:					
Basic	**245,217**	247,576	252,387	255,512	259,493
Diluted	**245,217**	248,430	254,148	257,204	261,394
Cash dividends paid per common share	**$ .30**	$ .25	$ .20	$ .15	$ .10

Balance Sheet Data[1]

At May 31,

(in thousands)

	2007	2006	2005	2004	2003
Working capital	**$ 1,105,976**	$ 816,566	$ 677,438	$ 810,718	$ 848,709
Total assets	**2,457,861**	2,282,647	2,114,945	1,790,120	1,681,403
Shareholders equity	**2,049,224**	1,720,194	1,568,844	1,451,669	1,289,742

(1) The selected financial data includes the operations of Interpore International, Inc. from its date of acquisition (June 18, 2004).

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

This discussion should be read in conjunction with the Company s consolidated financial statements and the corresponding notes contained herein. The Management s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that are subject to certain risk factors, as discussed elsewhere in this report under the caption Forward-Looking Statements.

Overview

Biomet, Inc. (the *Company*) is engaged in the research, development, manufacturing and marketing of products used primarily by musculoskeletal medical specialists. The Company operates in one business segment, musculoskeletal products, which includes the design, manufacture and marketing of products in four major market segments: reconstructive products, fixation devices, spinal products and other products. Reconstructive products, which represented 71% of the Company s net sales for fiscal year 2007, include knee, hip and extremity joint replacement systems, as well as dental reconstructive implants, bone cements and accessories, the GPS® System and the procedure-specific instrumentation required to implant the Company s reconstructive systems. Fixation devices, which represented 11% of the Company s net sales for fiscal year 2007, include internal and external fixation devices, craniomaxillofacial fixation systems and electrical stimulation devices that do not address the spine. Spinal products, which represented 10% of the Company s net sales for fiscal year 2007, include electrical stimulation devices addressing the spine, spinal fixation systems and orthobiologics. The other product sales category, which represented 8% of the Company s net sales for fiscal year 2007, includes arthroscopy products, softgoods and bracing products, casting materials, general surgical instruments, operating room supplies and other surgical products. Depending on the intended application, the Company reports sales of bone substitute materials in the reconstructive product, fixation device or spinal product segment.

The Company has operations at over 50 locations and distributes its products in over 100 countries throughout the world and manages its operations through three reportable geographic markets: United States, Europe and Rest of World. The Company experienced solid net sales growth in its reconstructive product lines during fiscal year 2007 in both domestic and international markets, which is attributable to the Company s emphasis on technological advances through product line extensions and new product introductions. In addition, growth in the patient population (as a result of increases in both the size of the elderly population and the expansion of the traditional age bracket of musculoskeletal patients) has contributed to this growth. Sales for fixation and spinal products decreased during fiscal 2007 reflecting performance below market and management objectives. Sales of other products were flat in fiscal 2007 as compared to fiscal 2006.

On May 29, 2007, Biomet restated its previously issued audited consolidated financial statements and related disclosures for the three years ended May 31, 2006, its consolidated statements of operations for the five years ended May 31, 2006, included in Selected Financial Data in Part II, Item 6, and its first quarter of fiscal 2007 to correct errors related to accounting for share-based compensation expense. The Company s decision to restate its financial results described in the Company s amended annual report on Form 10-K/A was based on the results of an independent investigation of the Company s stock option grants for the period March 1996 through May 2006 by the Special Committee.

The Special Committee s investigation was based upon the review of an extensive collection of information, interviews with more than two dozen individuals, and analysis of approximately 17,000 grants to purchase approximately 17,000,000 Biomet common shares on over 500 grant dates over the 11-year period. The Special Committee concluded that pursuant to APB 25 and related interpretations, the accounting measurement dates for most of the stock option grants awarded during this period differed from the measurement dates previously used for such awards. As a result, revised measurement dates were applied to the affected option grants and the Company recorded a total of $38.2 million in additional share-based compensation expense for the 11-year period. This is after consideration of vesting and forfeitures through May 31, 2006.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

The following table shows the percentage relationship to net sales of items derived from the Consolidated Statements of Income and the percentage change from year to year.

	Percentage of Net Sales			Percentage Increase(Decrease)	
	2007	2006	2005	2007 vs. 2006	2006 vs.2005
Net sales	**100.0%**	100.0%	100.0%	**4%**	8%
Cost of sales	**30.5**	28.7	28.4	**10**	9
Gross profit	**69.5**	71.3	71.6	**1**	7
Selling, general and administrative expenses	**41.8**	37.1	37.0	**17**	8
Research and development expense	**4.5**	4.2	4.2	**11**	6
In-process research and development			1.4		n/m
Operating income	**23.2**	30.0	29.0	**(20)**	12
Other income, net	**0.6**	0.1	0.1	**359**	8
Income before income taxes	**23.8**	30.1	29.1	**(18)**	12
Provision for income taxes	**7.9**	10.1	10.5	**(19)**	4
Net income	**15.9%**	20.0%	18.6%	**(17)%**	16%

n/m Not Meaningful

Net sales in fiscal year 2007 were $2,107,428,000, an increase of 4% from the prior fiscal year. Excluding the positive impact of foreign currency translation, net sales increased 2%.

Operating income for fiscal year 2007 was $489,602,000 compared to $608,386,000 for fiscal year 2006. Net income for fiscal year 2007 was $335,892,000, or $1.37 per share compared to $405,908,000 or $1.63 per share for fiscal year 2006. Reported results for fiscal year 2007 included special charges (pre-tax) of $119.3 million and stock compensation related expenses of $13.2 million, or $0.34 per share. The special charges (pre-tax) consisted of $39.2 million related to the renewal and re-negotiation of distribution agreements with existing distributors; $57.3 million related primarily to inventory write-downs and accounts receivable reserves related to its BTBS operations; $17.5 million in expenses related to the Merger Agreement and retirement/employment costs associated with changes in executive management; and $5.3 million in legal and accounting fees related to the previously announced stock option investigation.

Fiscal 2007 Compared to Fiscal 2006*

Net Sales Worldwide sales of reconstructive devices increased 9% to $1,503,874,000 in fiscal 2007 compared to $1,379,420,000 in fiscal 2006. Factors contributing to this increase include incremental volume as a result of an increase in the overall market size for reconstructive devices and favorable product mix (7%) and currency translation (2%). During the current year, worldwide dental reconstructive product sales increased 15%, extremity sales increased 14%, knee sales increased 8%, hip sales increased 7% and bone cement and accessory sales were flat.

Fixation sales decreased 11% during fiscal 2007 to $224,694,000 from $251,360,000 in 2006. Decreased volume and product mix accounted for this decrease. Worldwide sales of craniomaxillofacial products, including bone substitutes, increased 2%. Internal fixation devices increased 2%, external fixation devices decreased 13% and electrical stimulation devices decreased 25%.

Spinal sales decreased 7% to $205,862,000 in fiscal 2007 compared to $221,964,000 in 2006. Decreased volume and product mix accounted for this decrease. Worldwide sales of spinal hardware, including orthobiologics, increased 2% while spinal stimulation product sales decreased 21%. During fiscal year 2007, BTBS has underperformed against the market and management s objectives. Results have also been negatively impacted by the implementation of a new computer system. However, management changes have been made and progress has been achieved in the computer system implementation, sales support system, the in-sourcing of the manufacture of spinal hardware products and expanding the

research and development team. The Company believes that the new management team and infrastructure changes will allow for greater focus on the spine and trauma markets and its customers.

Sales of the Company s other products were flat at $172,998,000 in fiscal 2007 and $172,995,000 in 2006. Decreased volume and product mix (1%), were offset by currency translation (1%). Worldwide sales of arthroscopy products increased 10%, general surgical instrumentation increased 3%, while softgoods and bracing products decreased 5%.

Sales in the United States decreased 1% to $1,306,475,000 during the current fiscal year compared to $1,325,113,000 last year. Components of this change were incremental volume and product mix of reconstructive products (5%) offset by decreases in volume of fixation and spinal products (14%). The pricing environment was neutral for fiscal 2007. European sales increased 14% to $595,899,000 during the current fiscal year from $520,660,000 in 2006. Components of this increase were incremental volume and product mix (8%), and currency translation (6%). The Company anticipates foreign currency translation will positively influence sales for the first half of fiscal 2008. Sales in Rest of

* For purposes of this Management s Discussion and Analysis of Financial Condition and Results of Operations, the fiscal period is June 1 - May 31.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

World increased 14% to $205,054,000 this year from $179,966,000 last year. Components of this increase were incremental volume and product mix (13%), and currency translation (1%). The Company commenced direct sales of its products in Japan during fiscal 2002 and continues to experience good product acceptance with growth at approximately 22% for the current fiscal year in local currency.

Gross Profit The Company s gross profit increased 1.5% to $1,465,158,000 in fiscal 2007 from $1,443,633,000 in 2006. The gross profit margin decreased to 69.5% of sales in fiscal 2007 compared to 71.3% in 2006. The components of this change are additional expenses of 1.4% related to inventory write-downs at its BTBS operations and 0.4% from higher growth rates in foreign sales, where gross margins are lower as compared to gross margins on products sold in the United States.

Selling, General and Administrative Expenses Selling, general and administrative expenses increased 17% in fiscal 2007 to $881,140,000 compared to $750,259,000 last year. This increase results from the renewal and re-negotiation of distribution agreements with existing distributors (5.2%), accounts receivable reserves related to its BTBS operations (3.6%), expenses related to the proposed Merger Agreement and retirement/employment costs associated with changes in executive management (2.3%), the adoption of *SFAS 123(R)* (1.5%), increased commission expense on higher sales (4.0%), and an increase in other marketing and general and administrative expenses (1.4%). These increases were offset by decreased direct to consumer advertising (1.0%). As a percent of sales, selling, general and administrative expenses were 41.8% in fiscal 2007 and 37.1% in 2006. During the first quarter of fiscal 2008, the Company expects to incur approximately $33,000,000 in expenses related to the completion of the renewal and re-negotiation of distribution agreements for Biomet Orthopedics, Inc. The Company does not expect to incur additional significant expenses related to modifying these relationships subsequent to the first quarter of fiscal 2008.

Research and Development Expense Research and development expense increased 11% during the current year to $94,416,000 compared to $84,988,000 in 2006. The increase reflects the Company s continued emphasis on new product development and enhancements and additions to its existing product lines and technologies. Also included in the increase is the impact of adopting SFAS 123(R) (2.7%). As a percent of sales, research and development expenses were 4.5% in fiscal 2007 and 4.2% in 2006.

Operating Income Operating income decreased 20% during fiscal 2007 to $489,602,000 from $608,386,000 in 2006. U.S. operating income decreased 26% to $383,565,000 from $519,953,000 reflecting a slight decrease in sales and the additional expenses discussed above. European operating income increased 25% to $97,192,000 compared to $77,666,000 in 2006. The growth in Europe operating income reflects solid sales growth and favorable foreign currency exchange rates during fiscal year 2007 as compared to fiscal year 2006. Rest of World operating income decreased 18% to $8,845,000 in fiscal 2007 from $10,767,000 in 2006. This decline reflects higher selling expenses due to increased sales and expanding sales forces.

Other Income, Net Other income, net increased 49% to $21,310,000 from $14,274,000, while interest expense decreased 20% to $9,340,000 from $11,665,000. During fiscal 2007, interest expense decreased as borrowings were reduced and investment income increased as the Company s cash and investments increased. To reduce the risk of exchange rate gains and losses on transfer of inventory from domestic sites to international sites, the Company has lines of credit in both Europe and Japan in local currencies. (See Note G in the Notes to Consolidated Financial Statements). These lines of credit are used solely to fund inventory purchases and acquisitions in those local currencies.

Provision for Income Taxes The provision for income taxes decreased $39,407,000 to $165,680,000, or 33.0% of income before income taxes for fiscal 2007 compared to $205,087,000 or 33.6% of income before income taxes last year. The effective income tax rate decreased primarily as a result of a higher proportionate share of taxable income in countries where tax rates are lower and the continued benefit from the Qualified Production Activities Deduction in the U.S.

Net Income The factors mentioned above resulted in a 17% decrease in net income to $335,892,000 for fiscal 2007 from $405,908,000 in 2006 and a 16% decrease in basic earnings per share for 2007 to $1.37 compared to $1.64 in 2006.

Fiscal 2006 Compared to Fiscal 2005

Net Sales Net sales increased 8% during fiscal 2006 to $2,025,739,000 from $1,879,950,000 in 2005. Excluding the negative impact of foreign currency translations (1%), net sales increased 9%.

Worldwide sales of reconstructive devices increased 10% to $1,379,420,000 in fiscal 2006 compared to $1,254,234,000 in 2005. Factors contributing to this increase include incremental volume and product mix (11%), offset by currency translation (1 %). During fiscal 2006, worldwide dental reconstructive product sales increased 14%, knee and extremity sales increased 12%, hip sales increased 9% and bone cement and accessory sales decreased 5%. Bone cement and accessory sales were negatively impacted by the loss of the Company s primary bone

cement supplier during fiscal 2006. The Company introduced its own bone cement during fiscal 2006 and anticipates recapturing some of its lost market share.

Fixation sales increased 2% during fiscal 2006 to $251,360,000 from $246,730,000 in 2005. Increased volume and product mix (3%) offset by pricing decreases (1%), accounted for this increase. Worldwide sales of craniomaxillofacial products, including bone substitutes, increased 12%, internal fixation devices increased 6%, electrical stimulation devices decreased 2% and external fixation devices decreased 7%. The combination and management of the Interpore and EBI salesforces continues to have a negative impact on sales in the fixation, spinal and softgoods and bracing market segments.

Spinal sales increased 4% to $221,964,000 in fiscal 2006 compared to $214,039,000 in 2005. Incremental volume and product mix accounted for this increase. Worldwide sales of spinal hardware, including orthobiologics, increased 6%, while spinal stimulation product sales decreased 3%.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Sales of the Company s other products increased 5% to $172,995,000 in fiscal 2006 from $164,947,000 in 2005. Factors contributing to this increase included pricing increases (1%) and incremental volume and product mix (5%), offset by currency translation (1%). Worldwide sales of arthroscopy products increased 12%, general surgical instrumentation increased 4%, while softgoods and bracing products decreased 3%.

Sales in the United States increased 7% to $1,325,113,000 during fiscal 2006 compared to $1,238,727,000 in 2005. Components of this increase were incremental volume and product mix (6%) and positive pricing environment (1%). European sales increased 7% to $520,660,000 during the current fiscal year from $487,991,000 in 2005. Components of this increase were incremental volume and product mix (12%), offset by pricing decreases (mainly in bone cements) (1%) and currency translation (4%). Sales in Rest of World increased 17% to $179,966,000 in 2006 from $153,232,000 in 2005. Components of this increase were incremental volume and product mix (19%), offset by pricing decreases (1%) and currency translation (1%). The Company commenced direct sales of its products in Japan during fiscal 2002 and continues to experience good product acceptance with growth at approximately 39% for fiscal 2006 in local currency.

Gross Profit The Company s gross profit increased 7% to $1,443,633,000 in fiscal 2006 from $1,346,595,000 in 2005. The gross profit margin decreased to 71.3% of sales in fiscal 2006 compared to 71.6% in 2005. The components of this change are an increase of 1.3% relating to the impact of inventory step-up from acquisitions on last year s cost of goods sold, offset by a decrease of 0.3% due to an unanticipated, retroactive price increase from the supplier of Biomet s antibiotic delivery system in Europe, additional expenses of 0.2% related to the Company s review and reorganization of its EBI operations and discontinuation of the Acumen Surgical Navigation product line, 0.5% from average selling price decreases in Japan, Australia and Korea and 0.6% from higher growth rates in foreign sales, where gross margins are lower, versus domestic sales.

Selling, General and Administrative Expenses Selling, general and administrative expenses increased 8% in fiscal 2006 to $750,259,000 compared to $696,302,000 in 2005. This increase results from increased commission expense on higher sales (2.8%), the direct to consumer advertising that commenced during the second quarter of fiscal year 2006 (1.4%), additional expenses in connection with the separation package payable to former President and CEO Dane A. Miller, Ph.D. (1.3%), additional expenses related to the Company s review and reorganization of its EBI operations, discontinuation of the Acumen Surgical Navigation product line and the write-off of its investment in Z-KAT, Inc. (0.9%) and an increase in marketing and general and administrative expenses (1.6%). As a percent of sales, selling, general and administrative expenses were 37.1% in fiscal 2006 and 37.0% in fiscal 2005.

Research and Development Expense Research and development expense increased 6% during fiscal 2006 to $84,988,000 compared to $80,213,000 in 2005. The increase includes the $2.6 million paid for a cross-licensing and settlement agreement between Biomet Biologics, Inc. and Cytomedix, Inc. In addition, the increase reflects the Company s continued emphasis on new product development and enhancements and additions to its existing product lines and technologies. As a percent of sales, research and development expenses were 4.2% in fiscal 2006 and 2005.

Operating Income Operating income increased 12% during fiscal 2006 to $608,386,000 from $544,060,000 in 2005. U.S. operating income increased 3% to $519,953,000 from $505,799,000, reflecting solid sales growth for higher-margin product lines, offset by the additional expenses discussed above. European operating income increased 3% to $77,666,000 compared to $75,769,000 in 2005. The growth in Europe operating income was negatively affected by a reduction in gross margins and higher selling expenses for the Company s dental products, but reflects solid sales growth, higher gross margins (primarily related to the elimination in fiscal 2006 of inventory step-up costs recognized in fiscal 2005) and lower selling expenses for the rest of the Company s products. Rest of World operating income decreased 16% to $10,767,000 in fiscal 2006 from $12,762,000 in 2005. This decline reflects higher selling expenses due to expanding salesforces and increased expenses to meet additional regulatory requirements in Japan, including support of new product introductions.

Other Income, Net Other income, net increased 23% to $14,274,000 from $11,566,000, while interest expense increased 27% to $11,665,000 from $9,157,000. As interest rates increased during fiscal 2006, investment income, as well as interest expense increased. In addition, during fiscal 2006, investment income increased as the Company s cash and investments increased. To reduce the risk of exchange rate gains and losses on transfer of inventory from domestic sites to international sites, the Company has lines of credit in both Europe and Japan in local currencies. (See Note G in the Notes to Consolidated Financial Statements). These lines of credit are used solely to fund inventory purchases and acquisitions in those local currencies.

Provision for Income Taxes The provision for income taxes increased to $205,087,000, or 33.6% of income before income taxes for fiscal 2006 compared to $197,096,000 or 36.1% of income before income taxes in 2005. The effective income tax rate decreased primarily as a result of a $26 million write-off of in-process research and development last year, in connection with the Interpore acquisition not being tax affected. In addition, the tax rate benefited from the new Qualified Production Activities Deduction in the U.S. and continued expansion of operations in lower tax jurisdictions.

Net Income The factors mentioned above resulted in a 16% increase in net income to $405,908,000 for fiscal 2006 from $349,373,000 in 2005. These factors and the reduction in the shares used in the computation of earnings per share through the Company s share repurchase programs resulted in an 19% increase in basic earnings per share for 2006 to $1.64 compared to $1.38 in 2005.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Liquidity and Capital Resources

The Company s cash and investments increased to $273,827,000 at May 31, 2007, from $225,471,000 at May 31, 2006. Net cash from operating activities was $439,753,000 in fiscal 2007 compared to $413,470,000 in 2006. The principal sources of cash from operating activities were net income of $335,892,000 and non-cash charges of depreciation and amortization of $97,005,000. The principal use of cash includes an increase in the deferred income tax net asset due to the timing of tax deductions related to expenses for renewal and re-negotiation of distribution agreements and accounts receivable reserves and inventory write-downs at BTBS. Accounts receivable and inventory did not have a significant impact in net cash from operating activities after giving effect to the non-cash charges included in net income related to BTBS operations.

Cash flows used in investing activities were $125,061,000 in fiscal 2007 compared to $99,065,000 in 2006. The primary uses of cash for investing activities in fiscal 2007 and 2006 were purchases of investments and capital expenditures, offset by sales and maturities of investments. Capital expenditures in 2007 include purchases of instruments in the United States of $36,654,000, which were sold to distributors in prior years. Major capital expenditures for fiscal 2006 were expansion of manufacturing facilities in New Jersey and Florida, and purchases of instruments outside the United States to support new product launches and sales growth.

Cash flows used in financing activities were $251,240,000 in fiscal 2007 compared to $257,594,000 in 2006. The primary uses of funds during 2007 was a cash dividend of $0.30 per share paid on July 21, 2006, to shareholders of record on July 14, 2006 and the paydown of short-term borrowings of $196,871,000. The primary uses of funds during fiscal 2006 was the share repurchase programs, in which $215,430,000 was used to purchase 5,986,000 Common Shares of the Company, and the primary source of funds from financing activities was proceeds on the exercise of stock options.

At May 31, 2007, the Company has two lines of credit outstanding: 1) a European line of credit in the amount of EUR 100 million ($136 million); and 2) a Japanese line of credit in the amount of YEN 6.0 billion ($50.2 million). The total amount available under these lines of credit at May 31, 2007, is approximately $105 million.

The Company maintains its cash and investments in money market funds, certificates of deposit, corporate bonds, debt instruments, mortgage-backed securities and equity securities. The Company s investments are generally liquid and investment grade. The Company is exposed to interest rate risk on its corporate bonds, debt instruments, fixed rate preferred equity securities and mortgage-backed securities. The Company is confident about the growth prospects in its markets and intends to invest in an effort to improve its worldwide market position. The Company expects to spend in excess of $400 million over the next two fiscal years for capital expenditures and research and development costs in an effort to develop products and technologies that further enhance musculoskeletal procedures. Funding of these and other activities is expected to come from currently available funds, cash flows generated from future operations, and increased bank credit lines. The Company has no off-balance sheet financial arrangements and no material long-term contractual financial obligations.

Critical Accounting Policies and Estimates

Management s discussion and analysis of its financial position and results of operations are based upon the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company s significant accounting policies are discussed in Note B of the Notes to Consolidated Financial Statements. In management s opinion, the Company s critical accounting policies include revenue recognition, excess and obsolete inventory, goodwill and intangible assets, accrued insurance, and stock-based compensation expense.

Revenue Recognition For the majority of the Company s products in a country where the Company has a direct distribution operation, revenue is recognized upon notification to the Company that the product has been implanted in or applied to the patient. For other products or services, and in countries where the Company does not have a direct distribution operation, the Company recognizes revenue when title passes to the customer and there are no remaining obligations that will affect the customer s final acceptance of the sale. For its insurance billings in the United States, the Company records anticipated price adjustments, which can occur subsequent to invoicing, based on estimates derived from past experience, as a reduction of net sales in the same period that revenue is recognized. The Company also records estimated sales returns and other adjustments as a reduction of net sales in the same period that revenue is recognized. In addition, the Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the assumptions used in estimating pricing adjustments or the financial condition of the Company s customers were to deteriorate, resulting in an impairment of the Company s ability to collect its net receivables, additional allowances may be required which would affect its future operating results.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (concluded).

Excess and Obsolete Inventory In Biomet s industry, inventory is routinely placed at hospitals to provide the healthcare provider with the appropriate product when needed. Because product usage tends to follow a bell curve, larger and smaller sizes of inventory are provided, but infrequently used. In addition, the musculoskeletal market is highly competitive, with new products, raw materials and procedures being introduced continually, which may obsolete products currently on the market. The Company must make estimates regarding the future use of these products and provide a provision for excess and obsolete inventory. If actual product life-cycles, product demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required which would affect future operating results.

Goodwill and Other Intangible Assets In assessing the recoverability of the Company s intangibles, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets.

Accrued Insurance As noted in Note M of the Notes to Consolidated Financial Statements, the Company has a self-insured retention against product liability claims with insurance coverage over and above the retention. There are various other claims, lawsuits, disputes with third parties, investigations and pending actions involving various allegations against the Company. Product liability claims are routinely reviewed by the Company s insurance carrier and management routinely reviews all claims for purposes of establishing ultimate loss estimates. In addition, management must determine the estimated liability for claims incurred, but not reported. Such estimates and any subsequent changes in estimates may result in adjustments to the Company s operating results in the future.

Stock-Based Compensation Expense On June 1, 2006 the Company adopted revised SFAS 123(R), *Share-Based Payment*, which requires all share-based payments to be recognized in our financial statements based on their respective grant date fair values. Under this standard, the fair value of each employee stock option is estimated on the date of grant using an option-pricing model that meets certain requirements. The Company currently uses the Black-Scholes option-pricing model to estimate the fair value of our share-based payments. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by Biomet s stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The Company estimates the expected volatility based on historical volatility of the Company s common stock. The expected life of the stock options is based on historical and other data including life of the option and vesting period. The risk-free interest rate assumption is the implied yield currently available on zero-coupon U.S. Government issues with a remaining term equal to the expected life of the options. The dividend yield assumption is based on the historical dividend yield of the Company s Common Shares. Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company uses an annual forfeiture rate of approximately 18% as of May 31, 2007, which represents the portion that the Company expects will be forfeited each year over the vesting period. The Company will evaluate the assumptions used to value stock-based awards periodically and adjust the forfeiture rate if necessary. If factors change and the Company employs different assumptions, stock-based compensation expense may differ significantly from what the Company have recorded in the past. Had the Company adopted SFAS 123(R) in prior periods, the magnitude of the impact of that standard on the Company s results of operations would have approximated the pro forma number impact of SFAS 123(R), Share-Based Payment, described in Note I of our Notes to Consolidated Financial Statements under stock-based compensation.

Recent Accounting Pronouncements Information about recent accounting pronouncements and their effect on the Company can be found in Note B of the Notes to Consolidated Financial Statements.

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Quarterly Results

(in thousands, except earnings per share)

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
2007					
Net sales	**$ 508,161**	**$ 520,330**	**$ 529,530**	**$ 549,407**	**$ 2,107,428**
Gross profit	**369,458**	**369,057**	**365,771**	**360,872**	**1,465,158**
Net income	**104,380**	**104,767**	**85,255**	**41,490**	**335,892**
Earnings per share:					
Basic	**.43**	**.43**	**.35**	**.17**	**1.37**
Diluted	**.43**	**.43**	**.35**	**.17**	**1.37**
2006					
Net sales	$ 484,903	$ 494,690	$ 506,254	$ 539,892	$ 2,025,739
Gross profit	350,322	354,965	363,096	375,249	1,443,633
Net income	99,685	100,476	105,380	100,367	405,908
Earnings per share:					
Basic	.40	.41	.42	.41	1.64
Diluted	.40	.40	.42	.41	1.63
2005					
Net sales	$ 438,160	$ 456,674	$ 482,023	$ 503,093	$ 1,879,950
Gross profit	312,002	325,371	343,816	365,406	1,346,595
Net income	59,019	89,789	95,710	104,855	349,373
Earnings per share:					
Basic	.23	.36	.37	.42	1.38
Diluted	.23	.35	.37	.42	1.37

Per share data may not cross-foot due to the share repurchase program affecting the weighted share calculation differently by quarter compared to the full fiscal year.

Net income for the fourth quarter of fiscal 2007 was adversely impacted by pre-tax charges of $29.9 million related to the renewal and re-negotiation of distribution agreements with existing distributors; $46.3 million related to inventory write-downs and accounts receivable reserves related to its BTBS operations; $8.2 million in expenses related to the Merger Agreement, and retirement/employment costs associated with changes in executive management; and $2 million in legal and accounting fees related to the previously announced stock option investigation.

Net income for the third quarter of fiscal year 2007 was adversely impacted by pre-tax charges of $11 million related to inventory write-downs related to its BTBS Operations; $15.7 million in additional legal and distribution expenses; and $6.2 million in expenses related to the Merger Agreement.

Net income for the fourth quarter of fiscal 2006 was adversely impacted by pre-tax charges of $9 million in connection with the separation package payable to former President and CEO Dane A. Miller, Ph.D.; $5.4 million for expenses related to the Company s review and reorganization of its EBI operations; $4.8 million related to the discontinuation of the Acumen Surgical Navigation product line and the Company s investment in Z-KAT, Inc.; and $2.6 million for a cross-licensing and settlement agreement between Biomet Biologics, Inc. and Cytomedix, Inc.

Net income for the first quarter of fiscal 2005 was adversely impacted by a $26 million charge as a result of in-process research and development in connection with the Interpore acquisition.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

In the normal course of business, operations of the Company are exposed to fluctuations in interest rates and foreign currencies. These fluctuations can vary the cost of financing, investment yields and operations of the Company.

In connection with the Interpore acquisition, the Company entered into a 36-month revolving credit facility in the amount of $200 million. The outstanding credit line was paid off in February 2007 and the credit facility subsequently expired. The Company also maintains unsecured lines of credit in countries in which it has significant intercompany transactions in an effort to minimize currency rate risks. At May 31, 2007 and 2006, the Company had lines of credit of EUR 100 million ($136 million) and EUR 100 million ($126 million), respectively, in Europe and YEN 6.0 billion ($50.2 million) and YEN 4.5 billion ($39.5 million), respectively, in Japan. Outstanding borrowings under all lines of credit bear interest at a variable rate of the lender s interbank rate plus an applicable margin and, accordingly, changes in interest rates would impact the Company s cost of financing.

The Company does not have any investments that would be classified as trading securities under generally accepted accounting principles. The Company s non-trading investments, excluding cash and cash equivalents, consist of debt securities, equity securities and mortgage-backed securities. The debt securities include municipal bonds, with fixed rates, and preferred stocks, which pay quarterly fixed rate dividends. These financial instruments are subject to market risk in that changes in interest rates would impact the market value of such investments. The Company generally does not utilize derivatives to hedge against increases in interest rates which decrease market values, except for one of its investment managers who utilizes U.S. Treasury bond futures options *(futures options)* as a protection against the impact of increases in interest rates on the fair value of preferred stocks managed by that investment manager. The Company marks any outstanding futures options to market and market value changes are recognized in current earnings. The futures options generally have terms ranging from 90 to 180 days. Net realized gains (losses) on sales of futures options aggregated ($75,000) and ($136,000) for the years ended May 31, 2007 and 2006, respectively, and unrealized gains (losses) on outstanding futures options at May 31, 2007 and 2006, aggregated $28,000 and ($19,000), respectively.

Based on the Company s overall interest rate exposure at May 31, 2007, including variable rate debt and fixed rate preferred stocks, a hypothetical 10 percent change in interest rates applied to the fair value of the financial instruments as of May 31, 2007, would not have a material impact on earnings, cash flows or fair values of interest rate risk sensitive instruments over a one-year period.

The Company s foreign currency risk exposure results from fluctuating currency exchange rates, primarily the U.S. dollar against the European currencies. The Company faces transactional currency exposures that arise when its foreign subsidiaries (or the Company itself) enter into transactions, generally on an intercompany basis, denominated in currencies other than their local currency. The Company also faces currency exposure that arises from translating the results of its global operations to the U.S. dollar at exchange rates that have fluctuated from the beginning of the period. The Company has not used financial derivatives to hedge against fluctuations in currency exchange rates. Based on the Company s overall exposure for foreign currency at May 31, 2007, a hypothetical 10 percent change in foreign currency rates would not have a material impact on the Company s balance sheet, net sales, net income or cash flows over a one-year period.

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Item 8. Financial Statements and Supplementary Data.

Biomet, Inc. and Subsidiaries Index to consolidated Financial Statements and Schedule.

1. Financial Statements:

2. Financial Statement Schedule:

Schedules other than that listed above are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Management s Report on Internal Control over Financial Reporting.

The management of Biomet, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting for the Company (including its consolidated subsidiaries) and all related information appearing in the Company s annual report on Form 10-K. The Company s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

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.

Under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of its internal control over financial reporting as of May 31, 2007. The framework on which such evaluation was based is contained in the report entitled Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the *COSO* Report). Based on that evaluation and the criteria set forth in the COSO Report, management concluded that its internal control over financial reporting was effective as of May 31, 2007.

Management s assessment of the effectiveness of the Company s internal control over financial reporting as of May 31, 2007 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which appears on page 40.

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Report of Independent Registered Public Accounting Firm On Internal Control over Financial Reporting.

To the Board of Directors and Shareholders of Biomet, Inc.

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that Biomet, Inc. maintained effective internal control over financial reporting as of May 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Biomet, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

In our opinion, management s assessment that Biomet, Inc. maintained effective internal control over financial reporting as of May 31, 2007, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Biomet, Inc. maintained, in all material respects, effective internal control over financial reporting as of May 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Biomet, Inc. as of May 31, 2007 and 2006, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended May 31, 2007 and our report dated July 25, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Fort Wayne, Indiana

July 25, 2007

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Report of Independent Registered Public Accounting Firm.

To the Board of Directors and Shareholders of Biomet, Inc.:

We have audited the accompanying consolidated balance sheets of Biomet, Inc. and subsidiaries as of May 31, 2007 and 2006, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended May 31, 2007. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Biomet, Inc. and subsidiaries at May 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2007 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes I and H, respectively, to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payments, and No. 158, Employers Accounting for Defined Benefit Pension and Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R), in 2007.

We have also audited in accordance with standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Biomet Inc. s internal control over financial reporting as of May 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 25, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Fort Wayne, Indiana

July 25, 2007

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Biomet, Inc. & Subsidiaries Consolidated Balance Sheets.

At May 31,

(in thousands, except par value)

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	**$ 228,681**	$ 160,963
Investments	**2,157**	6,380
Accounts and notes receivable, less allowance for doubtful receivables (2007 $84,112 and 2006 $69,134)	**498,738**	507,883
Inventories	**540,428**	534,515
Refundable income taxes		16,880
Deferred income taxes	**136,777**	75,190
Prepaid expenses and other	**45,007**	32,342
Total current assets	**1,451,788**	1,334,153
Property, plant and equipment:		
Land and improvements	**28,211**	24,944
Buildings and improvements	**170,214**	154,101
Machinery and equipment	**583,457**	476,387
	781,882	655,432
Less, Accumulated depreciation	**354,486**	297,800
Property, plant and equipment, net	**427,396**	357,632
Investments	**42,989**	58,128
Goodwill	**448,427**	441,397
Other intangible assets	**74,569**	79,498
Other assets	**12,692**	11,839
Total assets	**$ 2,457,861**	$ 2,282,647
Liabilities & Shareholders Equity		
Current liabilities:		
Short-term borrowings	**$ 81,824**	$ 276,561
Accounts payable	**68,709**	62,276
Accrued wages and commissions	**80,335**	84,665
Accrued income taxes	**11,611**	
Other accrued expenses	**103,333**	94,085
Total current liabilities	**345,812**	517,587
Deferred income taxes	**21,242**	26,991
Employee related obligations	**41,583**	17,875
Total liabilities	**408,637**	562,453
Commitments and contingencies (Note M)		

Shareholders equity:		
Preferred shares, $100 par value: Authorized 5 shares; none issued		
Common shares, without par value: Authorized 500,000 shares; issued and outstanding 2007 245,667 shares and 2006 244,976 shares	**229,610**	206,633
Additional paid-in capital	**138,933**	116,528
Retained earnings	**1,634,707**	1,379,303
Accumulated other comprehensive income	**45,974**	17,730
Total shareholders equity	**2,049,224**	1,720,194
Total liabilities and shareholders equity	**$ 2,457,861**	$ 2,282,647

The accompanying notes are a part of the consolidated financial statements.

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Biomet, Inc. & Subsidiaries Consolidated Statements of Income.

For the years ended May 31,

(in thousands, except per share amounts)

	2007	2006	2005
Net sales	**$ 2,107,428**	$ 2,025,739	$ 1,879,950
Cost of sales	**642,270**	582,106	533,355
Gross profit	**1,465,158**	1,443,633	1,346,595
Selling, general and administrative expenses	**881,140**	750,259	696,302
Research and development expense	**94,416**	84,988	80,213
In-process research and development			26,020
Operating income	**489,602**	608,386	544,060
Other income, net	**21,310**	14,274	11,566
Interest expense	**(9,340)**	(11,665)	(9,157)
Income before income taxes	**501,572**	610,995	546,469
Provision for income taxes	**165,680**	205,087	197,096
Net income	**$ 335,892**	$ 405,908	$ 349,373
Earnings per share:			
Basic	**$ 1.37**	$ 1.64	$ 1.38
Diluted	**1.37**	1.63	1.37
Shares used in the computation of earnings per share:			
Basic	**245,217**	247,576	252,387
Diluted	**245,217**	248,430	254,148

The accompanying notes are a part of the consolidated financial statements.

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Biomet, Inc. & Subsidiaries Consolidated Statements of Shareholders Equity.

(in thousands, except per share amounts)

	Common Shares					
	Number	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance at June 1, 2004	254,262	$ 167,301	$ 101,317	$ 1,181,168	$ 1,883	$ 1,451,669
Net income				349,373		