The story **behind the numbers.**
Biomet, Inc. and its subsidiaries design, manufacture and market products used primarily by musculoskeletal medical specialists in both surgical and non-surgical therapy, including reconstructive and fixation devices, electrical bone growth stimulators, orthopedic support devices, operating room supplies, general surgical instruments, arthroscopy products, spinal implants, bone cements, bone substitute materials, craniomaxillofacial implants and instruments, and dental reconstructive implants and associated instrumentation. Headquartered in Warsaw, Indiana, Biomet has manufacturing and/or office facilities in over 40 locations worldwide. The Company currently distributes its products in more than 100 countries throughout the world.

**About the Cover**

Biomet’s 2000 Annual Report, *The Story Behind the Numbers*, provides the Company’s shareholders, team members and customers with a narrative account of Biomet’s history, its current position within the musculoskeletal marketplace and a view to the future. As Biomet approaches the $1 billion in revenue milestone, it is important to recognize the major events, products and people that have enabled us to become a worldwide leader in the musculoskeletal products marketplace. Although numbers are important, we believe it is equally important to share *The Story Behind the Numbers*.
Niles L. Noblitt, Chairman of the Board, and Dane A. Miller, Ph.D., President and Chief Executive Officer, continue to provide the leadership and inspiration for the story behind the numbers.
We are pleased to announce Biomet's twenty-third year of record financial results. For fiscal year 2000, sales increased 11% to $920,582,000 from $827,902,000 in fiscal year 1999. Operating income increased 42% from $185,902,000 to $263,674,000 during fiscal year 2000; net income increased 39% from $125,026,000 to $173,771,000; basic earnings per share increased 38% from $.72 ($1.08 on a pre-split basis) to $.99 ($1.49 pre-split); and diluted earnings per share increased 38% from $.71 ($1.07 pre-split) to $.98 ($1.47 pre-split). Excluding non-recurring items during fiscal years 1999 and 2000, operating income increased 18% from $234,349,000 to $275,374,000 during fiscal year 2000; net income increased 20% from $151,532,000 to $181,171,000; basic earnings per share increased 18% from $.87 ($1.30 pre-split) to $1.03 ($1.54 pre-split); while diluted earnings per share increased 19% from $.86 ($1.28 pre-split) to $1.02 ($1.53 pre-split).

Sales in the United States increased 11% to $609,293,000 and international sales also increased 11% to $311,289,000 during fiscal year 2000. Foreign sales were negatively influenced by approximately $15.1 million during fiscal year 2000 as a result of foreign currency exchange rates. Without the effect of foreign currency, consolidated sales in fiscal year 2000 would have increased 13% and international sales would have increased 17%.

The Company's balance sheet remains strong with $407,268,000 in cash and investments, no meaningful long-term debt and a working capital ratio of 4.4-to-1. Biomet's cash flows from operations amounted to $131,570,000 during fiscal year 2000. Biomet's strong balance sheet and positive cash flows from operations continue to allow the Company to pursue strategic investments in and acquisitions of other companies, product lines or technologies within the musculoskeletal products marketplace in order to expand our portfolio of products available to our customers throughout the world.

During fiscal year 2000, reconstructive device sales increased 11% to $580,239,000 compared to $521,365,000 last year. Fixation sales grew 11% to $180,336,000 compared to $162,825,000. Spinal product sales were $54,119,000 compared to $45,125,000, representing a 20% increase, while other product sales increased 7% to $105,888,000 compared to $98,587,000 last year. We are pleased with the balanced growth within our four reporting product categories as a result of the Company's six strategic business units' excellent efforts during fiscal year 2000.

In the reconstructive device category, worldwide total knee sales increased approximately 10%, while worldwide total hip sales increased in the upper-single digit range. In the United States, the Company's average selling prices in the total hip and total knee product categories increased approximately 2–3%. Additionally, reconstructive device sales were led by an upper-teens percentage increase in the Company's revision reconstructive product line in the United States. Additional growth-drivers in the reconstructive device segment were the minimally-invasive Repicci II™ Unicondylar Knee, the Ascent™ Total Knee System and Biomet's clinically-proven, cementless total hip systems. The Company's 3i subsidiary experienced an increase of approximately 30% in its worldwide sales of dental reconstructive implants, regenerative membranes and bone substitute materials for reconstructive procedures of the jaw.

Biomet's fixation sales were propelled by internal fixation products which increased in the mid-teens percentage range during fiscal year 2000. The Company's VHS® Vari-Angle Hip Fixation System continued to gain market share in the domestic market for internal fixation devices. Additionally, sales of EBI's Bone Healing System® Model 2001 increased in the low-teens range during fiscal year 2000, while Lorenz Surgical's craniofacial products increased in the upper-single digits for the year. Lorenz Surgical continues to capitalize on the recent introduction of Mimix™ bone substitute material for craniofacial indications, which was launched during the third quarter of fiscal year 2000. EBI's external fixation sales increased in the mid-single digit range during fiscal year 2000. At the end of the third quarter, EBI introduced the Dimension™ Wrist Fixator and the Access Pelvic Fixator broadening its product offering and leadership position in the external fixation device market.

The Company's spinal product sales were led by a mid-50% increase in EBI's spinal fixation sales in the United States. EBI continues to experience an excellent product launch with the Omega 21™ Spinal Fixation System and benefits from its ability to leverage the SpF® Spinal Fusion Stimulation System and the expansion of its domestic salesforce addressing spinal surgeons and neurosurgeons.

The non-recurring items for fiscal year 1999 include the $55 million judgment in connection with the Orthofix litigation, 3i’s litigation proceeds of $6.5 million and a one-time European tax benefit of $4.2 million. The non-recurring charges for fiscal year 2000 include a $2.7 million charge for merger-related costs in connection with the 3i acquisition and a $9 million charge related to the final determination of the interest element of the Orthofix judgment.
On July 6, 2000, Biomet announced a $0.16 per share (pre-split) cash dividend, three-for-two stock split and record fiscal year end results.

<table>
<thead>
<tr>
<th>Division</th>
<th>Sales (in thousands)</th>
<th>% of Total Sales</th>
<th>Sales Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>($609,293)</td>
<td>66%</td>
<td>11% increase</td>
</tr>
<tr>
<td>International</td>
<td>($311,289)</td>
<td>34%</td>
<td>11% increase</td>
</tr>
<tr>
<td>Reconstructive</td>
<td>($580,239)</td>
<td>63%</td>
<td>11% increase</td>
</tr>
<tr>
<td>Fixation</td>
<td>($180,336)</td>
<td>20%</td>
<td>11% increase</td>
</tr>
<tr>
<td>Other</td>
<td>($105,888)</td>
<td>11%</td>
<td>7% increase</td>
</tr>
<tr>
<td>Spinal Products</td>
<td>($54,119)</td>
<td>6%</td>
<td>20% increase</td>
</tr>
</tbody>
</table>

**NET SALES**

- **United States**: ($609,293—66% of sales) 11% increase
- **International**: ($311,289—34% of sales) 11% increase
- **Reconstructive**: ($580,239—63% of sales) 11% increase
- **Fixation**: ($180,336—20% of sales) 11% increase
- **Other**: ($105,888—11% of sales) 7% increase
- **Spinal Products**: ($54,119—6% of sales) 20% increase
In the “other product” sales category, the Company’s AOA® line of softgoods and bracing products increased in the upper-teens range, while Arthrotek’s arthroscopy products increased in the upper-30% range in the United States and the mid-20% range on a worldwide basis during fiscal year 2000. Arthrotek’s growth is currently being paced by the recently introduced LactoSorb® resorbable fixation product line and continued strength in the procedure-specific arthroscopy products.

In September 1999, Biomet signed a long-term distribution agreement with Fermentech Medical Ltd. which gave Biomet the exclusive worldwide distribution rights to a hyaluronan-based formulation for intra-articular injection into the knee, marketed under the name Fermathron®. This product provides pain relief for patients with mild-to-moderate osteoarthritis and has received CE mark approval in Europe, and approvals have been received in Canada and Australia, as well. Biomet is currently in the process of seeking regulatory approval for this product in the United States. We believe that Biomet’s worldwide distribution strength will uniquely position the Fermathron® material as a leading product in the viscosupplementation market for the treatment of pain associated with osteoarthritis.

On December 15, 1999, Biomet announced the completion of the merger of Implant Innovations International Corporation (“3i”) into a wholly-owned subsidiary of Biomet. With headquarters in Palm Beach Gardens, Florida, 3i is a leader in the $655 million worldwide dental reconstructive implant market with a strong track record of increasing its market share and developing innovative products and technologies for its customers. 3i’s introduction of its Osseotite® surface technology incorporated in dental reconstructive implants has benefitted patients and clinicians by reducing the healing time and increasing the predictability of the implant’s success. As previously announced, the shareholders of 3i received 7.8 million Common Shares (post-split) of Biomet and the transaction was accounted for as a pooling-of-interests. Accordingly, the Company’s financial results have been restated to incorporate 3i’s operations. We are pleased to report that 3i’s financial results have already made a positive contribution to Biomet’s earnings. On behalf of all of Biomet’s team members, we welcome 3i to the Biomet team.

In March of this year, Biomet board member C. Scott Harrison, M.D., was honored by the American Academy of Orthopedic Surgeons with the first annual AAOS Humanitarian Award. Dr. Harrison is the former President and Chief Executive Officer of Kirschner Medical Corporation and we applaud his humanitarian efforts.

Also in March of this year, Biomet introduced approximately ninety new products at the 2000 American Academy of Orthopedic Surgeons annual meeting in Orlando, Florida. A sampling of these products is highlighted throughout this year’s annual report. In order to meet the clinical demands of our growing customer base and expansive product offerings, Biomet is dedicated to further developing and expanding its multiple, worldwide salesforces. Biomet currently deploys over 1,000 technical sales representatives worldwide, who provide unparalleled service to our customers.

On July 6, 2000, the Company’s Board of Directors declared a cash dividend of $.16 per share ($.11 post-split), payable July 17, 2000, to shareholders of record at the close of business on July 10, 2000. The Company also announced on July 6 that the Board declared a three-for-two stock split on its outstanding Common Shares, to be distributed on or about August 8, 2000, to shareholders of record as of July 18, 2000. The Board’s decision to approve the three-for-two stock split reflects its continued confidence in the Company’s operational and strategic direction, and is further reinforced by Biomet’s solid financial performance during fiscal year 2000.

Lastly, as we reflect on our past and prepare for an exciting future, we thank you for your continued support of Biomet. It is through your dedication to the Company as shareholders, team members and sales representatives that we are privileged to service the needs of our valued customers and patients throughout the world. As we lead Biomet into the next century, it is our goal to carry on the tradition of superior customer responsiveness and product innovation that has enabled Biomet in twenty-three short years to approach the $1 billion annual sales mark and become a worldwide leader in the $12 billion musculoskeletal products marketplace.

Respectfully,

Dane A. Miller, Ph.D.
President & Chief Executive Officer

Niles L. Noblitt
Chairman of the Board
Three major contributions to the Biomet success story include: the use of titanium alloys for reconstructive devices, high-technology articulation systems and plasma spray porous coating technology.
Once upon a time...four individuals decided to form an orthopedic company in order to promote and foster the ideals they valued. Their goal was to create and support a streamlined organization where creativity could flourish, along with a commitment to quality and service. Twenty-three years ago, these four men, joined by their wives, began the task of bringing the concept to reality...the concept...a better way...the reality...Biomet.

Warsaw, Indiana is where the founders started the small operation with eight team members. Producing a line of orthopedic softgoods, the Company recorded sales of $17,000 and a net loss of $63,000 during the first year. Using the softgoods business as a backdrop for the development of a line of orthopedic implants, Biomet's sales quickly gained momentum.

Biomet was one of the first orthopedic companies to use titanium alloy for its implants, in addition to molding its own polyethylene components. Early in its history, Biomet developed an innovative porous coating technology, plasma spray, to promote bone growth onto the implant. These three early technological advances have provided Biomet with documented, positive long-term clinical results. In addition to the growth from technological and product innovations, Biomet's operations have developed through numerous product line expansions and acquisitions throughout the past 23 years.

In May 1984, Orthopedic Equipment Company (“OEC”) became part of the Biomet team. With an established distribution network in Europe and manufacturing facilities in Swindon, England and Bridgend, South Wales, OEC enabled Biomet to penetrate the European market and firmly establish its international presence. OEC also brought to Biomet a strong product line of internal fixation devices and operating room supplies.

In July 1992, Biomet entered the craniomaxillofacial market with the acquisition of Lorenz Surgical, an established leader in this market segment. Based in Parsippany, New Jersey, EBI also owned an assembly plant located in Guayanabo, Puerto Rico. Since 1988, EBI has added a manufacturing facility in Parsippany, as well as a softgoods operation located in Marlow, Oklahoma. With the addition of spinal products, EBI is poised to make significant strides in that market, as well.

In July 1994, Kirschner Medical Corporation was acquired by Biomet in November 1994. Kirschner’s reconstructive products and softgoods were complementary to Biomet’s product offerings. Kirschner also provided a manufacturing plant in Spain, giving the Company additional manufacturing resources and an expanded presence in Europe. An additional facility located in Fair Lawn, New Jersey, brought to Biomet an operation which currently supplies the Company’s entire casting needs.

In January 1998, Biomet and Merck KGaA formed a European joint venture. Merck KGaA is a German chemical, pharmaceutical and laboratory company located in Darmstadt. This enterprise expanded Biomet’s European presence, especially in France and Germany. The joint venture also enables Biomet to benefit from the exclusive rights to Merck KGaA’s extensive array of current and future orthopedic and biomaterials-based products and technologies.

In January 1999, Biomet merged with Implant Innovations, Inc. ("3i") in December 1999, exemplifies this strategy. Located in Palm Beach Gardens, Florida, 3i is a leader in the dental reconstructive implant market. 3i’s titanium implants feature a unique micro-porous surface to enhance bone growth and healing. We believe the sharing of current and future technologies between Biomet and 3i will be highly beneficial to the Company. Specific examples of such technologies will most likely include bone substitute materials, regenerative membranes and autologous growth factors.

Biomet continues to base its expansion decisions on the ability to enter new areas where synergistic technologies exist or can be developed. The most recent merger with Implant Innovations, Inc. (“3i”) in December 1999, exemplifies this strategy. Located in Palm Beach Gardens, Florida, 3i is a leader in the dental reconstructive implant market. 3i’s titanium implants feature a unique micro-porous surface to enhance bone growth and healing. We believe the sharing of current and future technologies between Biomet and 3i will be highly beneficial to the Company. Specific examples of such technologies will most likely include bone substitute materials, regenerative membranes and autologous growth factors.

Approximately 4,000 individuals are now members of the Biomet team. Biomet has expanded over the years to encompass over 40 facilities, including 15 manufacturing facilities, with over 1,000 sales representatives servicing its numerous customers.

During the past fifteen years alone, Biomet’s net sales have increased at a 25 percent compound annual growth rate. In addition, operating income has grown at a compound annual growth rate of 30 percent, while basic earnings per share has increased at 27 percent. These financial results reflect the strong growth pattern that Biomet has consistently recorded throughout its history. As the Biomet story continues to unfold, we remain committed to the ideals that have made us successful in the past.
### 2000 U.S. MUSCULOSKELETAL PRODUCTS MARKET

- **Reconstructive Devices** ($2,060 million)
- **Dental Reconstructive Implants** ($230 million)
- **Bone Cement & Access.** ($140 million)
- **Softgoods & Bracing** ($420 million)

(Biomet estimates in millions) $5.625 Billion

### 2000 U.S. RECONSTRUCTIVE DEVICE MARKET

- **Fixation** ($810 million)
- **Arthroscopy** ($595 million)
- **Spinal Implants** ($910 million)
- **O.R. Supplies** ($275 million)
- **Powered Surgical Equipment** ($185 million)

(Biomet estimates in millions) $2.06 Billion

### 2000 WORLDWIDE DENTAL RECONSTRUCTIVE IMPLANT MARKET

- **International** ($425 million)
- **United States** ($230 million)

(Biomet estimates in millions) $655 Million

### 2000 U.S. SPINAL FIXATION MARKET

- **Electrical Stimulation** ($120 million)
- **Plates, Rods, Screws** ($390 million)
- **Allograft/Bone Substitute Materials** ($180 million)
- **Fusion Cages** ($220 million)

(Biomet estimates in millions) $910 Million

### 2000 U.S. FIXATION MARKET

- **Allograft/Bone Substitute Materials** ($60 million)
- **Internal Fixation** ($375 million)
- **External Fixation** ($130 million)
- **Electrical Stimulation** ($120 million)
- **Craniomaxillofacial Fixation** ($125 million)

(Biomet estimates in millions) $810 Million
CHAPTER 2 – U.S. MUSCULOSKELETAL MARKET REVIEW

We believe that significant growth in the demographics of the middle-aged and elderly populations, along with increased public awareness regarding treatment options, will expand the worldwide market for musculoskeletal products and procedures exponentially. According to the World Health Organization, the number of people over the age of 65 is expected to increase 82% from 550 million in 1998 to over 1 billion in 2020. Additionally, the population of 55–75 year olds in the United States is expected to grow 68% to 56.3 million by 2010. Biomet estimates the 2000 worldwide musculoskeletal products market to be approximately $12 billion, while the market in the United States is estimated at $5.625 billion.

RECONSTRUCTIVE DEVICE MARKET
The reconstructive device market segment is by far the largest part of the United States musculoskeletal products market, estimated at $2.06 billion. The reconstructive device market is led by the knee market, estimated to be $1,095 million and growing 6–8% per year. The next largest segment is the hip market, believed to be $870 million with a 5–7% annual growth rate. The shoulder market is believed to be $65 million, exhibiting 5–6% growth per year. We estimate that approximately 330,000 total knee procedures will be performed in the United States during 2000. Of these procedures, approximately 30,000 represent revision procedures, where a surgeon will remove a previous implant due to a number of clinical factors. We believe that the revision market is growing at roughly twice the rate of the primary market. Total hip procedures in 2000 are estimated at 295,000, including approximately 35,000 revision hip procedures.

DENTAL RECONSTRUCTIVE IMPLANT MARKET
Worldwide, the dental reconstructive implant market is estimated at approximately $655 million. The dental reconstructive implant market is believed to be $230 million in the United States, growing 10–12% per year. The Company’s 3i subsidiary is a pioneer and market leader in the dental reconstructive implant market segment.

SPINAL FIXATION MARKET
The spinal fixation market, estimated at $910 million in the United States, is one of the fastest growing segments within the musculoskeletal products market with growth in excess of 20%. We estimate the plate, rod, and screw market to be $390 million. The fusion cage market is estimated to be approximately $220 million and we believe the electrical stimulation market will reach $120 million. Allograft and bone substitute materials round out the chart at $180 million.

Back pain is the number one cause for healthcare expenditures in the United States, with more than $50 billion in direct and indirect medical expenses. Back pain affects more than 10 million people annually and is the number one reason for doctor visits in the United States. Worldwide, in excess of 5,000 orthopedic spine surgeons and neurosurgeons treat patients with spinal disorders. A spinal fusion is the permanent fusing of two or more vertebrae together using bone graft material obtained from the patient (autologous), a cadaver (allograft) or synthetic bone substitute materials with or without instrumentation. Approximately 275,000 spinal fusion procedures are performed in the United States each year. Lumbar (lower back) fusions amount to 130,000 procedures per year; cervical (upper back) procedures are 110,000; thoracic (middle back) procedures are estimated at 20,000 per year; and 15,000 revision procedures are performed annually.

FIXATION MARKET
The fixation market is estimated to reach $810 million this year. We believe that internal fixation represents approximately half of the fixation market at $375 million, growing 7–8% per year. External fixation is valued at $130 million, exhibiting growth of 6–7% and we believe the electrical stimulation market to be $120 million, growing 10% per year. EBI is the recognized leader in the electrical stimulation and external fixation market segments, while Biomet’s Warsaw-based strategic business unit is a rapidly emerging market participant in the internal fixation market. The craniomaxillofacial fixation market, in which Lorenz Surgical is a leader, amounts to $125 million for 2000, and is growing approximately 5% per year.

SPORTS MEDICINE MARKET
Over the past few years, advances in arthroscopic surgery, biodegradable materials and rehabilitation have enabled arthroscopic surgeries to become considerably quicker and less painful. As a result, there has been an explosion in orthopedic sports medicine treatments in the United States. Additionally, the number of orthopedic surgeons who specialize in sports medicine procedures has jumped 46% to 6,752 specialists in 1998 from 4,622 in 1992. The two principal market segments that comprise the sports medicine market are arthroscopy products and softgoods/bracing products. The arthroscopy market in the United States is estimated at $595 million and growing at approximately 10–12% per year. Arthrotek competes in the arthroscopy market in the United States. The softgoods and bracing market is estimated at $420 million in the United States and growing 3–5% per year. Biomet addresses the softgoods and bracing market through its EBI strategic business unit and its AOA® products.
...we wish you the best, Vernon!
CHAPTER 3 – VERNON’S STORY

Vernon Slone is a tall, sturdy man who enjoys sports and spending time with his family. Unfortunately, Vernon was recently diagnosed with a left pelvic mass. He was referred to Dr. Paul Nicholls in Lexington, Kentucky. Dr. Nicholls has been an orthopedic surgeon for over twenty years and specializes in treatments for conditions of the knee, hip, and pelvis.

Due to the uncertainty regarding the specific type of mass, Dr. Nicholls began a thorough patient workup, including biopsy, computerized axial tomography (“CT”) scan, magnetic resonance image (“MRI”), and blood work. The CT scan and MRI revealed a rather large mass. The biopsy identified the tumor as chondrosarcoma, a malignant growth of cartilage. Bone cancers are rare, but chondrosarcoma is one of the more common types of cancer arising in bone. Removal of the mass would be extensive and necessitate excision of the femoral head (upper end of the femur). Therefore, in addition to the hemi-pelvis reconstruction, the placement of a total hip implant would be required.

Dr. Nicholls contacted Vee Hays, a sales representative for Biomet distributor Randy Fields. Vee has been a Biomet sales associate for Randy since August 1994, when Randy first became a Biomet distributor. Prior to 1994, Randy had been a Kirschner distributor for 5 years. Located in Louisville, Randy’s service-oriented distributorship covers a territory that includes most of Kentucky and West Virginia. Vee quickly responded by contacting Biomet’s Patient-Matched Implant (“PMI®”) Department in Warsaw where arrangements were made to design a custom implant for Vernon. Specifically, the implant would be designed to start with the posterior portion of the ilium and extend across the pubis.

Jeff King, the manager of the PMI® Department, and development engineer John Harman worked together on the initial design of the implant. Management of the project was then assigned to John. Biomet’s PMI® team continued the process by creating a model of the implant. The model was sent to Dr. Nicholls for his review. After modifications to the original blueprint and model were implemented, PMI® machinist Mike Lane skillfully initiated the difficult task of manufacturing this unique implant.

Surgery was scheduled for April 5, 2000. Dr. Nicholls performed a 10-hour procedure at Central Baptist Hospital in Lexington to remove the large mass, reconstruct Vernon’s left hemi-pelvis, and implant a total hip. The surgical procedure required both a front and back approach to the pelvis and was complicated by the size of the mass. This unique procedure was extremely difficult, but successful. Without a one-of-a-kind custom implant, Vernon’s only option would have been amputation.

The time spent in designing and manufacturing the implant, along with the interaction prior to the surgery between Dr. Nicholls, Vee Hays, and Biomet’s PMI® team was crucial to the success of the operation and the surgical outcome. According to Dr. Nicholls, John Harman was not only helpful in working through the design of the implant, but also providing options for the attachment to the iliac wing. “I have found Biomet to be extremely easy to work with in designing components for specialized needs, and I have truly appreciated the efforts of John Harman in this complicated case. He made several trips to Lexington to work on the design and the implementation of the prosthesis and always exhibited great enthusiasm, which is a real help to me.”

Vernon is now ambulatory, using a walker and taking only acetaminophen for pain. He is expected to convert from walker to cane soon and eventually give up the cane. While recovering from the surgery prior to his discharge from the hospital, Vernon looked over at Dr. Nicholls and quipped, “I’m going to teach you how to play basketball.” What a great outlook!

This story is unique due to the type of implant constructed and the extremely challenging case which was presented. Biomet’s commitment to providing unmatched service and superior responsiveness allows us to take an unusual situation and develop a solution, as if it were common. We are proud of our contributions to the end result — improving a patient’s quality of life....
New reconstructive device products recently developed include (clockwise) the M²a™ Metal-on-Metal Hip Articulation System, the Repici II™ Unicondylar Knee, the Ceramic-on-Ceramic Hip Articulation System,2 as well as the Ascent™ Total Knee System.

2The Ceramic-on-Ceramic Hip Articulation System is currently involved in an IDE study.
CHAPTER 4 – BIOMET • WARSAW

Warsaw, Indiana, the orthopedic capital of the world, is the location of our corporate headquarters and principal strategic business unit. Over 1,000 team members service our customers in the United States and in key international markets outside of Europe from this location. Biomet’s rapidly growing salesforce is comprised of over 400 independent, commissioned sales representatives providing unparalleled service to our customers. Product lines addressed through the Biomet-Warsaw strategic business unit include: reconstructive device products, such as total knees, total hips and total shoulders; internal fixation products; specialty surgical extremity products and a variety of operating room supplies.

Two disabling diseases leading to musculoskeletal procedures are osteoarthritis and osteoporosis. Osteoarthritis is a degenerative joint disease resulting from the breakdown of cartilage in weight-bearing joints and hands, causing pain and loss of movement. Osteoporosis is a disease that is characterized by loss of bone density and strength that progresses with no pain. According to the Arthritis Foundation, osteoarthritis affects an estimated 20.7 million Americans, mostly after age 45. This is approximately one-half of the 43 million Americans having one of the more than 100 forms of arthritis. According to the National Osteoporosis Foundation, 10 million Americans have osteoporosis and another 18 million have low bone mass, placing them at increased risk of osteoporosis. Osteoporosis is also responsible for more than 1.5 million fractures annually, estimated to include 300,000 hip fractures, 700,000 vertebral fractures, 250,000 wrist fractures, and 300,000 fractures at other sites. Approximately 18,000 orthopedic surgeons in the United States assist patients with musculoskeletal maladies.

Biomet currently occupies the number four position in the $2.06 billion market for reconstructive devices in the United States, possessing an estimated 14% of this important market segment. Although consolidation occurred in 1998 within the reconstructive device market segment with two major mergers of Biomet’s competitors, Biomet’s broad range of products and technologies addressing this market segment remains unmatched by any of its larger competitors. In the total knee market segment, Biomet offers nine major knee products. A new knee system launched in November 1998, the Ascent™ Total Knee System, addresses primary and revision indications in addition to offering anterior referencing instrumentation to Biomet’s customers. The Ascent™ Total Knee System has been introduced to approximately 65% of the domestic salesforce. The Repicci II™ Unicondylar Knee System continues to experience broad market acceptance in the United States. The Repicci II™ system addresses situations where osteoarthritis is confined to one compartment of the knee. This minimally-invasive knee system requires a smaller surgical incision, which may reduce blood loss and result in a shorter recovery time than traditional total knee replacement surgery. Additionally, this procedure can be performed on an outpatient basis. The Company’s broad total knee product offerings, in addition to the new products and technologies in development, position the Company well to continue to expand upon its current number four position in the $1.095 billion domestic market for total knees. We believe that Biomet currently controls approximately 13% of this market segment.

The Company possesses approximately 15% of the $870 million domestic market for total hips, which positions the Company as the fourth-leading market participant in this market segment. Biomet offers the broadest range of total hip products in the industry, with more than twenty total hip systems addressing virtually every clinical need an orthopedic surgeon may encounter in the operating room. The Company’s leadership position in high-technology articulation systems was reinforced with the recent FDA regulatory clearance to market our M2a™® Metal-on-Metal Hip Articulation System. Biomet is one of only two orthopedic companies on the market with this unique hip articulation system. In laboratory testing, the M2a™® system has shown a 100-fold volumetric reduction in wear compared to conventional polyethylene articulation systems. The M2a™® system can be utilized on all of Biomet’s clinically proven femoral components. This system complements Biomet’s breakthrough development in reducing polyethylene wear through its patented ArCom® polyethylene process. ArCom® one of the few “new generation” polyethylenes with clinical data, has experienced superb clinical results since its introduction approximately seven years ago. Unlike competitors’ “highly cross-linked polyethylene,” this material can be applied to all of Biomet’s hip, knee and shoulder implants. In fact, ArCom® clinical results have demonstrated a reduction in wear of approximately 40% as compared to conventional polyethylene. Biomet’s proprietary titanium porous plasma spray process, which has been proven to accelerate the initial fixation between the implant and the bone, together with pioneering developments in high-technology bearing surfaces, has enabled the Company to demonstrate unparalleled clinical results with its reconstructive device systems. Additionally, the Mallory-Head® Total Hip System, which has been on the market since 1984, has published results showing 99.6% survivorship over 12 years.
New products recently introduced by the Biomet-Warsaw strategic business unit include the Mallory-Head® Primary Porous Lateralized hip stem, the VHS® Supracondylar Cable Plate and Palacos® Bone Cement.
The estimated $315 million revision market in the United States is a rapidly growing segment of the reconstructive device market. A revision procedure is required if an initial implant needs to be replaced. The Company's broad product offerings addressing the revision market include: the Mallory-Head® Modular Calcar Hip System; the Finn® Salvage/Oncology Knee System, the Maxim® Revision Knee System and the Ascent™ Revision Knee System. These systems are designed to address a multitude of surgical situations where the surgeon is confronted with significant bone defects. Numerous modular components are available to provide flexibility to the surgeon in order for the implant to be customized intraoperatively. Additionally, the Biomet® tri-polar acetabular cup was recently cleared by the FDA for hip surgery where the patient is at high risk for dislocation. On June 1, 2000, Biomet entered the $140 million domestic market for bone cements and accessories with Palacos® Bone Cement. Palacos® cement will be coupled with the patented Optivac® Cement Preparation System, which provides a simple and effective means for mixing and delivering bone cement to the surgical site. Palacos® Bone Cement and the Optivac® Cement Preparation System are two important products introduced through the Biomet Merck joint venture.

In the internal fixation market segment, Biomet's efforts have been concentrated on high-end products designed to reduce operating room time and increase patient benefits. We believe that the Company controls approximately 6% of the $375 million internal fixation device market in the United States. The VHS® Vari-Angle Hip Fixation System adjusts to custom fit the patient's femur, which eliminates a significant amount of inventory previously required for these cases. Additionally, the Uniflex® family of intramedullary nailing systems represents a broad solution for fractures of the humerus, tibia and femur. The new VHS® Supracondylar Cable Plate is designed for internal fixation of distal femoral and subtrochanteric fractures. This variable angle system will be introduced during the first quarter of fiscal 2001.

The Company operates decentralized research and development activities at each strategic business unit. However, Biomet utilizes two primary biomaterials research centers to assist the development efforts of all strategic business units. These biomaterials research centers are located in Warsaw, Indiana, and Darmstadt, Germany. A product currently in development by the Biomet-Warsaw strategic business unit is the Generation 4® Bone Cement with VacPac™ delivery system, which provides a self-contained mixing and delivery system. The monomer and polymer are contained in a clear, flexible vacuum-sealed unit separated by a clamp. This clamp can be removed to allow mixing of the cement, eliminating exposure to the fumes associated with open mixing procedures. Additionally, Calcigen®S calcium sulfate bone substitute material is awaiting FDA clearance for marketing in the United States. Synthetic bone substitute materials could augment and potentially replace autograft procedures which utilize the patient's own bone for bone grafting situations. The complications associated with autograft procedures include requiring a second surgical site and the pain and morbidity associated with harvesting the patient's own bone. Second generation LactoSorb® resorbable products for musculoskeletal applications are also being developed at the Company's biomaterials research center.

Biomet and Selective Genetics, Inc. formed an alliance in May 1999 to develop gene therapy-based products utilizing Selective Genetics' Gene Activated Matrix (“GAM™”). The products developed through this association will be used in musculoskeletal repair indications, such as spinal fusion, fracture repair, bone void filling, and tendon and ligament repair. This alliance creates the world's largest medical device and gene therapy collaboration. Biomet and Selective Genetics have made significant progress in preparation for clinical evaluation of the first gene therapy product designed to stimulate hard tissue repair. Our collective efforts have been concentrated on the completion of pre-clinical studies to support a clinical trial on acute tibial fractures.
Displayed are the TRAC® (two radius area contact) Posterior Stabilized Mobile Bearing Knee System and Tibon®, a combination of a titanium cervical spinal fusion cage and Endobon® Bone Substitute material.

**INTERNATIONAL SALES**

<table>
<thead>
<tr>
<th>Fiscal Years 1985–2000</th>
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<tr>
<td>2000 – $311,289</td>
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</table>

(in thousands)

26% Compound Annual Growth Rate

**2000 EUROPEAN MUSCULOSKELETAL PRODUCTS MARKET**

- Knees ($445)
- Hips ($625)
- Shoulders ($30)
- Softgoods ($530)
- Dental Reconstructive Implants ($300)
- Trauma ($310)
- Spine ($190)
- Arthroscopy ($200)
- Bone Cement & Access. ($140)
- Powered Instruments ($100)

(Biomet estimates in millions)

$2.87 Billion
Biomet Merck is the joint venture formed in January 1998 between Biomet and Merck KGaA. Merck KGaA is a pharmaceutical, chemical and laboratory company founded in 1668 and located in Darmstadt, Germany. This dynamic enterprise was created to establish a leadership position in the $2.87 billion European musculoskeletal products market. Additionally, the joint venture provides Biomet with the exclusive rights to Merck KGaA's current and future biomaterials-based products on a worldwide basis. With approximately 1,300 team members servicing our European customer base, Biomet Merck distributes its products through a direct salesforce of approximately 300 technical field specialists, accompanied by approximately 100 independent service representatives.

The joint venture has capitalized upon distribution synergies in key markets within Europe. For example, Merck KGaA’s strong market presence was principally concentrated in Germany and France, while Biomet’s strengths were in the United Kingdom, Spain, Belgium, Italy, Portugal and Holland. Headquartered in Zwijndrecht, The Netherlands, Biomet Merck maintains manufacturing facilities in Swindon, England; Bridgend, South Wales; Valencia, Spain; Valence, France; Sjobo, Sweden; and Berlin, Germany; and operates a biomaterials-based research and development operation in Darmstadt, Germany. Additionally, the joint venture maintains distribution facilities in Holland, Belgium, Poland, Austria, Portugal, Italy, Norway, Denmark, Czech Republic, Finland, Switzerland and Greece. The expansion of manufacturing and distribution facilities in the European marketplace has enabled the Company to quickly respond to the needs of its customers on a local basis.

Further capitalizing on Biomet Merck’s unique core development competencies, the joint venture will introduce new biomaterials-based bone substitute materials and new bone cement products in fiscal 2001. The new bone cements include the Copal™ and Palamix™ systems. The Copal™ cement incorporates a combination of Gentamicin and Clindamycin antibiotics into its formula and is especially effective in revision reconstructive procedures. The Palamix™ cement utilizes a pre-packaged bone cement mixing and delivery system for precise application of the cement in reconstructive procedures. During fiscal year 2000, Biomet Merck acquired ScandiMed, a Swedish company. ScandiMed is the world leader in cement delivery systems and provides the joint venture with the ability to market the unique Optivac® Bone Cement mixing and delivery system. Furthermore, its product range includes reconstructive devices, several of which are supported by favorable long-term clinical results in the Swedish total hip register.

Biomet Merck’s BioBon® Bone Substitute material, which is a resorbable calcium phosphate material, will be offered with the antibiotic Gentamicin incorporated into the system. Other new European-sourced products to be launched in fiscal 2001 include the ScandiMed® Scan Pulse Lavage System, which is a high pressure irrigation system for bone bed preparation; Septocoll™ which is a collagen-based resorbable hemostatic agent with antibiotic protection; and Tibon®, which integrates the bone substitute material, Endobon®, with a titanium cervical spinal fusion cage, providing a unique solution for stabilization and fusion of the cervical spine.

INTERNATIONAL – REST OF THE WORLD

Reconstructive device products experiencing exceptional international growth include the AGC® Knee System, which continues to lead international knee sales, the TRAC® Mobile Bearing Knee System, and 3i’s Osseotite® Dental Reconstructive Implant System. We anticipate significant growth potential from the M2a™ Metal-on-Metal Hip Articulation System which has just been introduced. The TRAC® Mobile Bearing Knee System, designed for younger and more active patients, utilizes a rotating platform tibia component which allows enhanced mobility and increased anatomic flexibility for the patient. In the United States, the Company is currently completing a clinical study on the TRAC® Mobile Bearing Knee System.

The 2000 international musculoskeletal products market is estimated to be approximately $5.75 billion, of which the European musculoskeletal products market comprises $2.87 billion. We believe that Biomet maintains an approximate 10% market share within the European market. Outside of Europe, the Company has direct distribution in Australia, New Zealand, Canada, Chile, Mexico and Puerto Rico, where Biomet is experiencing continued growth. The joint venture’s products are concentrated in the $1.1 billion reconstructive device market and the $140 million market for bone cements and accessories, with a growing presence and focus on the $190 million spinal, the $310 million trauma and the $200 million arthroscopy markets. Additionally, 3i controls approximately 15% of the estimated $300 million dental reconstructive implant market in Europe. During fiscal year 2000, Biomet’s international sales, in local currencies, increased 17%. The Company’s international sales have increased at a 26% compound annual rate since fiscal year 1985.
EBI continues to expand the breadth of its spinal product offerings with new products such as the SpineLink™ Cervical System and the SpF® Mesh Cathode. Recently released fixation products include the Bone Healing System® Model 2001 and the Dimension™ Wrist Fixator.
CHAPTER 6 – ELECTRO-BIOLOGY, INC. Electro-Biology, Inc. (“EBI”), headquartered in Parsippany, New Jersey, is the market leader in the electrical bone growth stimulation and external fixation market segments. EBI also has a rapidly growing line of spinal fixation products, as well as a broad line of office-based orthopedic support products. With approximately 900 team members, including a direct salesforce of 315 sales representatives, EBI supports the physician and patient from the hospital, to the doctor's office, and to the patient's home. In order to provide unrivaled service to its customers, EBI's salesforce has increased 215% since fiscal year 1993. EBI's spinal fixation products and external fixation products are produced in Parsippany, New Jersey, while the electrical stimulation product lines are assembled in Guaynabo, Puerto Rico, and the orthopedic support products are produced in Marlow, Oklahoma. During fiscal year 2000, EBI expanded its manufacturing and development capabilities, implemented a new salesforce structure in order to better respond to its customers' needs and launched the largest number of new products and line extensions in its history.

In the United States, over six million bone fractures occur each year. The normal course of treatment is alignment, reduction and immobilization, including casting, bracing or rigid fixation with plates, rods, screws or external frames. In approximately 10% of all fractures, the healing process slows down (“delayed union”) or stalls (“non-union”). EBI's electrical stimulation technology can be effective in healing recalcitrant or problematic fractures in these 600,000 cases. EBI's Bone Healing System® Model 2001, which was introduced during fiscal year 2000, represents a lighter and more patient-friendly system and has allowed EBI to expand its presence within the $120 million market for electrical stimulation products in the United States. The Healthcare Financing Administration ("HCFA") recently revised its policy covering electrical stimulation therapy for fractures. Previously, HCFA covered electrical stimulation technologies only after six or more months had lapsed without the fracture showing visible signs of healing. The new policy will allow for reimbursement for electrical stimulation technology three months after a fracture has occurred. We believe this change in HCFA's reimbursement policy accurately addresses the patient's clinical indications and allows the physician more flexibility and options in treating his or her patients.

EBI currently maintains approximately 6% of the $910 million spine market in the United States. During fiscal year 2000, EBI added to the breadth of its spinal product offerings by launching the Omega 21™ Spinal Fixation System. The Omega 21™ system allows EBI's salesforce to target the traditional rod and screw segment of the spinal market. EBI also provides its customers with the SpineLink™ Spinal Fixation System, with its unique independent intra-segmental fixation method for spinal fusion. Additionally, the SpF® Spinal Fusion Stimulation System and its unique mesh cathode, which acts as a delivery mechanism for the electrical current and also as a bed for bone graft material, augment EBI's growing spinal product line addressing the clinical needs of orthopedic spinal surgeons and neurosurgeons in the United States. Two new spinal products slated for introduction during fiscal year 2001 include the SpineLink™ Anterior Cervical Fixation System and the VueCath® Spinal Endoscopic System.

The DynaFix® External Fixation System is a market-leading, patented device utilized in complicated trauma situations and in certain limb-lengthening applications. We estimate that the external fixation market in the United States is approximately $130 million, with EBI possessing approximately a 30% market share. During the fourth quarter of fiscal year 2000, EBI launched three new external fixation products. The Dimension™ Wrist Fixation System allows EBI to market a versatile range of three wrist fixation systems and provide price segmentation and a broad spectrum of technology to its surgeons and patients. Additionally, EBI launched the Access™ Pelvis Fixation System and a new pin-to-bar system called the Vision™ External Fixation System during fiscal year 2000. Clearly, the breadth of EBI's external fixation product offerings, coupled with its superb service, should enhance EBI's leadership position in external fixation technology in the marketplace.

The Support-On-Site (“S.O.S.”) stock and bill program has allowed EBI to dramatically expand its presence in the $420 million market in the United States for softgoods and bracing products. With the S.O.S.™ stock and bill program, EBI handles all details of softgoods delivery, stocking, billing and follow-up, leaving the provider free to concentrate on optimizing patient outcomes. We estimate that EBI's softgoods and bracing market share is 8% in the United States. The daily number of orders placed through the S.O.S.™ program has increased from less than two hundred orders per day in fiscal year 1996 to approximately one thousand orders per day in fiscal year 2000.
An array of 3i products is displayed including two products from the Osseotite® family of dental implants as well as several components (Gingihue™, ZiReal™, and TG Posts) used to fabricate replacement teeth.

**DENTAL RECONSTRUCTIVE IMPLANT MARKET SHARES – UNITED STATES**

- 3i (21%)
- Nobel Biocare (25%)
- ITI Straumann (14%)
- Other (8%)
- Lifecore Biomedical (9%)
- Friadent (5%)
- Sulzer Calcitek (9%)
- Paragon (9%)

$230 Million

**WORLDWIDE DENTAL RECONSTRUCTIVE IMPLANT MARKET SHARES**

- 3i (17%)
- Nobel Biocare (28%)
- ITI Straumann (20%)
- Other (16%)
- Lifecore Biomedical (4%)
- Friadent (7%)
- Sulzer Calcitek (4%)
- Paragon (4%)

$655 Million
Implant Innovations, Inc. ("3i") is the most recent addition to the Biomet team. Founded in 1987, 3i's headquarters/manufacturing facility is located in Palm Beach Gardens, Florida. 3i is a leader in the $655 million worldwide dental reconstructive implant market, with a worldwide market share of approximately 17%. The dental reconstructive implant market in the United States is estimated to be approximately $230 million, while the international market for dental reconstructive products is estimated to be approximately $425 million. With 480 team members worldwide, 3i services its customers through a direct salesforce of over 110 sales representatives in the United States, Germany, France, Spain, the United Kingdom, Scandinavia, Switzerland, Canada and Mexico. In the remaining worldwide markets, 3i distributes its products through dedicated independent distributors.

3i develops, manufactures and markets products for oral rehabilitation through the replacement of teeth, in addition to hard and soft tissues. These products include dental reconstructive implants and related instrumentation, regenerative products and materials, and bone substitute materials. According to the American Dental Association, there are approximately 5,000 periodontists, 6,200 oral surgeons and 3,200 prosthodontists in the United States. Of these specialists, 95% of oral surgeons, 75% of periodontists and 10% of the prosthodontists in the United States are currently performing implant placement procedures, yielding a surgical specialist target market of nearly 10,000 clinicians. With over 135,000 general dental practitioners in the United States and only about 20% regularly referring patients to implant surgical specialists, the growth potential in the dental reconstructive implant market is substantial. In the United States alone, only 200,000 dental reconstructive implant procedures are performed on an annual basis. In the United States, Europe and Japan over 200 million people have some form of edentulism (missing one or more teeth) that could benefit from dental reconstructive implant therapy. Since 1982, approximately 2 million people have been treated with dental implants. We estimate that the current market penetration of patients who have been treated for missing teeth is only 4–8%.

The Osseotite® dental implant system, 3i's flagship product, features a patented micro-porous surface technology which allows for earlier loading and improved bone integration to the surface of the implant compared to competitive dental implants. In 1998, the Osseotite® system received 510(k) clearance from the FDA to load after eight weeks of healing compared to the traditional twelve to twenty-four weeks associated with conventional dental implants. 3i's Biogran® bone graft material is utilized in preparation for dental implant procedures. Used to initiate bone growth in areas of defects, Biogran® is a synthetic granular material which transforms into hollow calcium phosphate bone growth chambers. These chambers provide an environment in which osteogenesis (new bone growth) occurs. As the granules resorb, they are replaced by the new bone.

One of the new products recently introduced, the Platelet Concentrate Collection System ("PCCS™"), is a custom designed centrifuge system for the rapid preparation of autologous platelet concentrates. This compact system offers several significant advantages over conventional collection systems. The PCCS™ centrifuge requires a significantly smaller sample of blood, is compact for office or ambulatory environments, and allows for precise control of blood components. This system is one of the most effective available, averaging 65% recovery of the available platelets while maintaining platelet viability. Another new product, the ZiReal™ Post, is an all-ceramic abutment with a titanium interface incorporating the durability and strength of zirconia, the strongest of all ceramic compounds available in the marketplace. The key differentiation of the ZiReal™ Post is the minimal risk of fracture, in addition to allowing the projection of light and color to approximate the translucency of natural teeth. The GingiHue™ Post, with its gold-colored titanium nitride coating, provides a warm hue in the gingival tissue, eliminating the unnatural gray projection through the soft tissue common in conventional products.

Throughout its operating history, 3i has grown substantially faster than the industry, which has resulted in 3i experiencing the greatest market share gains in the industry over the last several years. 3i has the second-leading market share position in the United States and the third-leading position in Europe. Through the cooperative development efforts between 3i and Biomet's biomaterials research operations, we anticipate development synergies in the areas of bone substitute materials, regenerative membranes, titanium surface treatments and platelet growth factor systems.
Lorenz Surgical and Arthrotek utilize the Company’s proprietary LactoSorb® technology to develop resorbable products for procedure-specific indications. Also shown are Lorenz Surgical’s Mimix™ Bone Substitute material, along with Arthrotek’s Bone Mulch™ Screw and complementary product, the WasherLoc™ Tibial Graft Fixation device.

**CRANIOMAXILLOFACIAL FIXATION MARKET SHARES – UNITED STATES**

- Lorenz Surgical (22%)
- Stryker Leibinger (26%)
- A-O Synthes (34%)
- Other (18%)

$125 Million
CHAPTER 8 – LORENZ SURGICAL/ARTHROTEK

Walter Lorenz Surgical, Inc. ("Lorenz Surgical"), located in Jacksonville, Florida, is a pioneer and leading developer, manufacturer and marketer of craniomaxillofacial products. Lorenz Surgical’s broad product offering includes a complete line of Craniomaxillofacial Rigid Fixation Systems and related instrumentation, Hard Tissue Replacement (“HTR™”) products, Mimix™ bone graft substitute material and the industry’s first resorbable craniomaxillofacial system, the LactoSorb® Craniomaxillofacial Fixation System. Lorenz Surgical services its customers through approximately 165 team members, in addition to a growing, independent salesforce of approximately 80 technical sales representatives in the United States. We believe that Lorenz Surgical currently controls approximately 22% of the $125 million market for craniomaxillofacial products in the United States.

Lorenz Surgical markets the LactoSorb® Craniomaxillofacial Fixation System, which utilizes patented copolymer and plate design features, resulting in a system that is comparable in strength to existing titanium systems. The LactoSorb® System completely resorbs within nine to fifteen months and is especially beneficial for pediatric surgical procedures by eliminating the need for a second surgery to remove the plates and screws. Additionally, the LactoSorb® system has been enhanced to combine the superior resorbable properties of the LactoSorb® material with a new, streamlined delivery system which optimizes the operative technique.

On November 19, 1999, Lorenz Surgical received 510(k) clearance from the FDA to market the Mimix™ bone substitute material for craniofacial indications. Mimix™ Bone Substitute material is a synthetic tetra-calcium phosphate/tri-calcium phosphate material, which slowly resorbs and is converted into bone. This material has superior handling properties and is most commonly used for the repair of neurosurgical burr holes, craniotomy cuts and other cranial defects. Additionally, Mimix™ Bone Substitute material can be utilized in the restoration, or augmentation, of bony contours in a craniofacial skeleton. We believe that Lorenz Surgical’s salesforce is uniquely positioned to penetrate the $10–15 million market for bone substitute materials addressing the craniomaxillofacial market segment in the United States.

During fiscal year 2000, Lorenz Surgical also introduced a product line incorporating distraction osteogenesis technologies for the face. This titanium device is utilized in lengthening procedures addressing pediatric congenital defects. Additionally, Lorenz Surgical introduced the RapidFlap™ Cranial Flap Fixation System which firmly affixes the bone flap from both sides of the bone using a rivet-like configuration providing superior strength and stability. These new products and technologies augment Lorenz Surgical’s leadership position in the craniomaxillofacial fixation marketplace.

The Company’s strategic business unit focusing on arthroscopy products is Arthrotek. The development and marketing efforts of Arthrotek principally address procedure-specific arthroscopy products and more recently include resorbable arthroscopic fixation products. Headquartered in Warsaw, Indiana, Arthrotek also occupies manufacturing sites in Redding and Ontario, California. Approximately 72 team members form the Arthrotek team and an independent commissioned salesforce distributes its products in the United States. Arthrotek currently has a small (approximately 3%) but rapidly-growing presence in the $595 million domestic market for arthroscopy products.

New products fueling Arthrotek’s robust sales growth during fiscal year 2000 include the LactoSorb® line of resorbable arthroscopic fixation products. LactoSorb® is a patented copolymer that provides the strength of traditional fixation products in the initial stages of healing and completely resorbs over time. This unique product eliminates the necessity of subsequent surgery to remove the product after healing has occurred. The specific resorbable products marketed by Arthrotek include the Bio-Phase II™ Suture Anchor, Gentle Threads™ Interference Screw, Meniscus Staple, Pop Rivet, and Rotator Cuff Buttress (RCB™). The Bio-Phase II™ Suture Anchor is available in two sizes. The 3.0mm size is indicated for shoulder repairs, such as rotator cuff and acromio-clavicular separation repairs, as well as biceps tenodesis and deltoid repair. The 2.0mm anchor is used for reconstruction of ligaments in the wrist. The Gentle Threads™ Interference Screw offers a blunt thread design to prevent graft damage while being placed in the femoral and tibial tunnels during anterior cruciate ligament reconstruction. The Meniscus Staple provides fixation for meniscal tears in knee repair procedures. The Pop Rivet provides fixation in soft tissue reattachment to bone and is used primarily in shoulder repair procedures and provides an advantage over sutures by eliminating knot tying. The Rotator Cuff Buttress is used to maintain the stability of rotator cuff repair in surgeries where a tunnel technique is used. This plate allows the suture to be securely tied without the concern of the suture cutting through the tissue.

The WasherLoc™ Tibial Graft Fixation Device continues to gain significant market share in the arthroscopy marketplace. The combination of the WasherLoc™ device with the Tapered Bone Mulch™ Screw, provides a proven system for endoscopic fixation of hamstring grafts and has enabled Arthrotek to become an emerging leader in procedure-specific arthroscopy products. Other important new products for Arthrotek include a second-generation fluid management system and the RC Needle Kit for rotator cuff repair. Arthrotek’s business strategy is to continue to expand the current product line with additional high margin, technology-driven products, while building a worldwide dedicated distribution network.
Pictured from left to right, top row: Niles L. Noblitt; C. Scott Harrison, M.D.; Dane A. Miller, Ph.D.; Darlene K. Whaley; Thomas R. Allen; Daniel P. Hann; L. Gene Tanner; and M. Ray Harroff. Middle row: William C. Kolter; Anthony L. Fleming; Jerry L. Miller; Kenneth V. Miller; Jerry L. Ferguson; Prof. Dr. Bernhard Scheuble; and Thomas F. Kearns, Jr. Bottom row: Garry L. England; Greg W. Sasso; David L. Montgomery; Kenneth J. Beres; Joel P. Pratt; Gregory D. Hartman; Richard J. Borror, Jr.; and Charles E. Niemier. Not pictured: James R. Pastena; Marilyn Tucker Quayle; and Kent E. Williams.
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and Chief Executive Officer

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C. Scott Harrison, M.D.
Orthopedic Surgeon and founder of CCURE

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President, Stonehenge Links Village Development
(realt estate development)

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Retired Partner, Bear, Stearns & Co., Inc.
(investment banking)

Jerry L. Miller
President, Havirco, Inc.
(private investment management)

Kenneth V. Miller
Vice President, Havirco, Inc.
(private investment management)

Charles E. Niemier
Senior Vice President – International Operations

Marilyn Tucker Quayle
Partner, Krieg, Devault, Alexander & Capehart
(law firm)

Prof. Dr. Bernhard Scheuble
CEO Pharma, General Partner and Vice Chairman of the Executive Board, Merck KGaA Darmstadt, Germany
(pharmaceutical company)

L. Gene Tanner
Vice Chairman of the Board NatCity Investments Inc.
(investment banking)

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President
and Chief Executive Officer

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Vice Chairman of the Board

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Senior Vice President – Warsaw Operations

Daniel P. Hann
Senior Vice President, General Counsel and Secretary

Gregory D. Hartman
Senior Vice President – Finance, and Treasurer

Charles E. Niemier
Senior Vice President – International Operations

Joel P. Pratt
Senior Vice President

James R. Pastena
Vice President

Greg W. Sasso
Vice President – Corporate Development and Communications

Darlene K. Whaley
Vice President – Human Resources

Kent E. Williams
Vice President

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Biomet Orthopedics, Inc.
Thomas R. Allen
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Boehringer Ingelheim (3i)
Richard J. Lazzara, DMD, MScD
Chairman

Implant Innovations, Inc.
Keith D. Beaty
President

Biomedical Orthopedics, Inc.
Glenn L. Criser
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Implant Innovations, Inc. (3i)
Edward G. Sabin
President

C. Scott Harrison, M.D.
Prof. Dr. Bernhard Scheuble
CEO Pharma, General Partner and Vice Chairman of the Executive Board, Merck KGaA Darmstadt, Germany
(pharmaceutical company)

The Company’s 20 officers have a combined total of 450 years of musculoskeletal business experience.
TEAM LEADERSHIP

SUBSIDIARIES (CONCLUDED)

**BIOMET INTERNATIONAL LTD.**
*Biomet Argentina S.A.*
Juan Carlos Kevorkian
Managing Director

*Biomet Australia Pty. Ltd.*
William Lemon
Managing Director

*Biomet Canada, Inc.*
James R. Wilson
President

*Biomet Chile, S.A.*
Pablo Martelli
Managing Director

*Biomet Mexico S.A. de C.V.*
Eduardo Garate
Managing Director

*Biomet Orthopaedic Ltd.*
Owen Stobart
Managing Director

**BIOMET MERCK JOINT VENTURE**
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Chief Executive Officer

Axel von Wietersheim
Chief Operating Officer

John Amber
Director – Manufacturing

Frank Robben
Chief Financial Officer

*Biomet Merck Austria GmbH*
Joe Henri Schulte
Managing Director

*Biomet Merck Belgium BVBA*
Renaat Vermeulen
Managing Director

*Biomet Merck CZ, s.r.o.*
Radmilla Faberova
Managing Director

*Biomet A/S (Denmark)*
Henrik Gamsgaard
Managing Director

*Biomet Merck Deutschland GmbH*
Dr. Norbert Klas
Managing Director

*Biomet Merck Finland Oy*
Ken Peranen
Managing Director

*Biomet Merck France Sarl*
Bruno Thevenet
Managing Director

*Biomet Merck Hellas S.A.*
Marios Papadopoulos
Managing Director

*Biomet Merck Ltd.*
Robert A. Forster
Managing Director

*Biomet Merck Norge A.S.*
Sigmund Grevstad
Managing Director

*Biomet Merck Polska Ltd.*
Marek Mlodzianowski
Managing Director

*Biomet Merck S.r.l*
Giuseppe Sciuto
Managing Director

*Biomet Merck (Switzerland) GmbH*
Peter Stager
Managing Director

*IQL, S.L.*
Federico Arizabalaga
Managing Director

*Merck Biomaterial GmbH*
Dr. Berthold Nies
Managing Director

*Ortomed B.V.*
Hans van den Berg
Managing Director

*ScandiMed Implant A.B.*
Anders Sjögren
Managing Director

*Sociedad Comercial Multibras S.A.*
Antonio Jose Rebelo
Managing Director

**3i INTERNATIONAL IMPLANT INNOVATIONS CANADA, INC.**
Rudy Huber
Country Manager

*Implant Innovations U.K., Ltd.*
Richard Beal
Country Manager

*Implant Innovations Deutschland GmbH*
Dirk Gieselmann
Country Manager

*Implant Innovations Mexico S.A.*
Fernando de Leon
Country Manager

**TEAM MANAGEMENT**

*Biomet, Inc.*
Thomas J. Bauters
Director – Corporate Taxes

James W. Haller
Director – Finance/Controller

Bradley J. Tandy
Assistant General Counsel and Corporate Compliance Officer

*Biomet Orthopedics, Inc.*
James S. Babcock
Director – Marketing, Trauma & Extremities

Kevin T. Stone
Director – Materials Management

Samuel W. Stutzman
Director – Engineering Services

Rex A. White
Director – Quality Assurance

William S. Pietrzak, Ph.D.
Director – Marketing, Biomaterials

Stephen J. Stewart
Director – Sales Administration

John M. Susaraba
Director – Marketing, Hip Reconstruction

John J. Wagoner
Director – Regulatory Compliance

Dennis W. Wall
West Area Vice President

*Biomet Manufacturing Corp.*
R. Craig Blaschke
General Manager – Biomaterials Technology

Troy W. Hershberger
Director – Product Development

Terry D. Martin
Director – Manufacturing Engineering

*Implant Innovations Europe ApS*
Mats Henningson
Country Manager

*Implant Innovations Switzerland GmbH*
Martin Gerlach
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*Implant Innovations Iberica S.L.*
Sergio Gil
Country Manager

*Implant Innovations Austria GmbH*
Dirk Gieselmann
Country Manager

*Implant Innovations Finland Oy*
Ken Peranen
Managing Director

*Implant Innovations France S.A.*
Rene Nahum
Country Manager

*Implant Innovations Germany GmbH*
Dirk Gieselmann
Country Manager

*Implant Innovations Italy S.r.l.*
Giuseppe Sciuto
Managing Director

*Implant Innovations Nederland B.V.*
Hans van den Berg
Managing Director

*Implant Innovations Nederland B.V.*
Hans van den Berg
Managing Director

*Implant Innovations Nederland B.V.*
Hans van den Berg
Managing Director
## INCOME STATEMENT DATA

Years ended May 31,  
(in thousands, except per share amounts)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$920,582</td>
<td>$827,902</td>
<td>$706,150</td>
<td>$623,730</td>
<td>$568,881</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>278,382</td>
<td>259,429</td>
<td>224,301</td>
<td>201,200</td>
<td>186,500</td>
</tr>
<tr>
<td>Gross profit</td>
<td>642,200</td>
<td>568,473</td>
<td>481,849</td>
<td>422,530</td>
<td>382,381</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>326,618</td>
<td>295,401</td>
<td>256,509</td>
<td>230,240</td>
<td>215,029</td>
</tr>
<tr>
<td>Research and development expense</td>
<td>40,208</td>
<td>38,723</td>
<td>39,731</td>
<td>26,279</td>
<td>26,326</td>
</tr>
<tr>
<td>Special charges</td>
<td>11,700</td>
<td>48,447</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Operating income</td>
<td>263,674</td>
<td>185,902</td>
<td>185,609</td>
<td>166,011</td>
<td>141,026</td>
</tr>
<tr>
<td>Other income, net</td>
<td>17,018</td>
<td>13,899</td>
<td>23,452</td>
<td>8,796</td>
<td>12,038</td>
</tr>
<tr>
<td>Income before income taxes and minority interest</td>
<td>280,692</td>
<td>199,801</td>
<td>209,061</td>
<td>174,807</td>
<td>153,064</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>99,738</td>
<td>67,317</td>
<td>81,058</td>
<td>64,842</td>
<td>56,213</td>
</tr>
<tr>
<td>Income before minority interest</td>
<td>180,954</td>
<td>132,484</td>
<td>128,003</td>
<td>109,965</td>
<td>96,851</td>
</tr>
<tr>
<td>Minority interest</td>
<td>7,183</td>
<td>7,458</td>
<td>144</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Net income</td>
<td>$173,771</td>
<td>$125,026</td>
<td>$127,859</td>
<td>$109,965</td>
<td>$96,851</td>
</tr>
</tbody>
</table>

### Earnings per share:

- Basic: $0.99, $0.72, $0.74, $0.62, $0.54
- Diluted: 0.98, 0.71, 0.73, 0.61, 0.53

### Shares used in the computation of earnings per share:

- Basic: 176,196, 174,441, 173,553, 176,625, 179,169
- Diluted: 178,161, 177,210, 176,420, 179,009, 182,208

### Cash dividends paid per common share

- $0.09, $0.08, $0.07, $0.06, $ -

## BALANCE SHEET DATA

At May 31,  
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>$608,185</td>
<td>$497,010</td>
<td>$483,025</td>
<td>$400,259</td>
<td>$408,601</td>
</tr>
<tr>
<td>Total assets</td>
<td>1,218,448</td>
<td>1,110,940</td>
<td>879,382</td>
<td>650,230</td>
<td>613,870</td>
</tr>
<tr>
<td>Long-term obligations, including redeemable preferred stock</td>
<td>–</td>
<td>8,074</td>
<td>7,330</td>
<td>6,935</td>
<td>6,218</td>
</tr>
<tr>
<td>Shareholders' equity</td>
<td>943,323</td>
<td>795,849</td>
<td>678,311</td>
<td>560,984</td>
<td>538,866</td>
</tr>
</tbody>
</table>

- All share and per share data have been adjusted to give retroactive effect to the three-for-two stock split declared on July 6, 2000.
- The above amounts have been restated to reflect the merger of 3i on December 16, 1999 which has been accounted for as a pooling-of-interests.
- Amounts after January 1, 1998 include the impact of Biomet Merck. Other acquisitions during the five year period individually and in the aggregate have not been material to the Company's operating results or financial position.

### SELECTED FINANCIAL DATA

• 1978–1990 Net Sales

According to the National Osteoporosis Foundation, 1 in 2 women and 1 in 8 men over age 50 will have an osteoporosis-related fracture in their lifetime.
All financial information of prior periods has been restated to reflect the merger of 3i on December 16, 1999 which has been accounted for as a pooling-of-interests.

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.

<table>
<thead>
<tr>
<th>Percentage of Net Sales</th>
<th>Percentage Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>100.0%</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>30.2</td>
</tr>
<tr>
<td>Gross profit</td>
<td>69.8</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>35.5</td>
</tr>
<tr>
<td>Research and development expense</td>
<td>4.4</td>
</tr>
<tr>
<td>Special charges</td>
<td>1.3</td>
</tr>
<tr>
<td>Operating income</td>
<td>28.6</td>
</tr>
<tr>
<td>Other income, net</td>
<td>1.9</td>
</tr>
<tr>
<td>Income before income taxes and minority interest</td>
<td>30.5</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>10.8</td>
</tr>
<tr>
<td>Income before minority interest</td>
<td>19.7</td>
</tr>
<tr>
<td>Minority interest</td>
<td>0.8</td>
</tr>
<tr>
<td>Net income</td>
<td>18.9%</td>
</tr>
</tbody>
</table>

n/m – Not Meaningful

**FISCAL 2000 COMPARED TO FISCAL 1999**

On December 16, 1999, Implant Innovations International Corporation ("3i") was merged into a subsidiary of the Company through a stock-for-stock exchange in which 7.8 million Common Shares were issued for all of the issued and outstanding shares of 3i. The merger has been accounted for as a pooling-of-interests, and the discussion and analysis that follows reflects the combined results of operations, cash flows and financial condition of the merged operations.

Net Sales – Net sales increased 11% in 2000 to $920,582,000 from $827,902,000 in 1999. Excluding the effect of foreign currency translation adjustments, net sales increased 13%. The increase in net sales reflects the increased demand for the Company's products, most notably reconstructive devices (including 3i's dental reconstructive implants), spinal implants, internal fixation and bone healing devices, softgoods and arthroscopy products. The Company's United States sales increased 11% to $609,293,000 from $548,510,000 in 1999. The products experiencing strong U.S. growth are Biomet's knee products, including reconstructive revision systems, 3i's dental reconstructive implant products, EBI's Bone Healing System® Model 2001, SpineLink™ Spinal Fixation System and Omega 21™ Spinal Fixation System, Arthrotek's arthroscopy products and AOA® softgoods. Foreign sales in local currencies increased by 17%, but due to the currency exchange rates, the Company reported an 11% increase to $311,289,000 from $279,392,000 in 1999. Increases in foreign sales of reconstructive devices, including 3i's dental reconstructive implant products, EBI's external fixation products and Lorenz Surgical’s cranio maxillofacial products contributed to this increase. The Company's worldwide reconstructive device sales increased 11% during 2000 to $580,239,000 from $521,365,000 in 1999. This increase was primarily a result of Biomet's continued penetration of the reconstructive device market led by revision products, the Repici II™ Unicondylar Knee, the Ascent™ Total Knee System and 3i's penetration into the dental reconstructive implant market. Fixation sales increased 11% from $162,825,000 in 1999 to $180,336,000 during the current year. EBI's Bone Healing System® Model 2001 is largely responsible for the increase in fixation product sales. Spinal product sales increased 20% to $54,119,000 in 2000 from $45,125,000 during 1999. The launch of the Omega 21™ Spinal Fixation System and continued penetration and line extensions of the SpineLink™ Spinal Fixation System contributed to this increase. The Company's “other product” sales increased from $98,387,000 in 1999 to $105,888,000 in 2000, resulting in a 7% increase. Sales of Arthrotek's LactoSorb® line of resorbable arthroscopic fixation products as well as the AOA® line of softgood products are primarily responsible for this increase.

Gross Profit – The Company's gross profit increased 13% in 2000 to $642,200,000 from $568,473,000 in 1999. This increase is a result of increased sales of higher margin products, including revision products, 3i's dental reconstructive implants and EBI's fixation products, and increased in-house manufacturing efficiencies. Cost of sales as a percentage of sales decreased to 30.2% in 2000 compared to 31.3% in 1999. The Company continues to invest heavily in improved, more efficient manufacturing equipment and monitors inventory levels on a consistent basis. As sales continue to grow, the Company has been able to limit inventory growth to reasonable levels.

* For purposes of this Management's Discussion and Analysis, the fiscal period is June 1 – May 31.
Selling, General and Administrative Expenses – Selling, general and administrative expenses were $326,618,000 in 2000 compared to $295,401,000 in 1999, an increase of 11%. As a percentage of sales, selling, general and administrative expenses were 35.5% in 2000 and 35.7% in 1999. An increase in commissions on increased product sales is the primary reason for the increase in the current year expense.

Research and Development Expense – Research and development expense increased 3.8% to $40,208,000 from $38,723,000 in 1999. This increase in research and development expenditures is due to continued funding in gene therapy technologies in the musculoskeletal field and increases in arthroscopy and dental reconstructive implant development. The Company understands the importance of research and development and the challenges placed upon companies to be competitive in the marketplace. As such, the Company intends to continue to invest heavily in the development of new products both domestically and internationally.

Special Charges – In 2000, the Company recorded $11.7 million of special charges which consisted of a $9 million charge to reflect the final determination of the interest element of the Orthofix judgment and a $2.7 million charge for merger related costs in connection with the 3i merger. In 1999, the Company recorded $48.5 million in special charges consisting of a $55 million charge to reflect the final judgment against the Company in the action brought by Orthofix, net of $6.5 million in proceeds from 3i’s recovery in a litigation matter.

Other Income, Net – Other income, net increased 22% to $17,018,000 from $13,899,000 in 1999. Increased investment income on cash and investments is largely responsible for this increase.

Provision for Income Taxes – The provision for income taxes increased to $99,738,000 for 2000, or 35.5% of income before income taxes, compared to $67,317,000 in 1999, or 33.7% of income before income taxes. The increase in the effective rate is due to Biomet Merck benefitting from a one-time $4.2 million tax credit in 1999. Excluding this credit, the rate during 2000 was comparable with prior years. The Company anticipates its effective tax rate in the future to be between 34% to 35% as a result of corporate restructuring and planning in both the United States and internationally. The Company will continue to be adversely affected by changes in the Puerto Rican local tax structure which reduces the historical U.S. tax benefits from operating in Puerto Rico.

Net Income – The factors mentioned above resulted in a 39% and 38% increase in net income and basic earnings per share, respectively, for 2000 compared to 1999. Net income increased to $173,771,000 from $125,026,000 and basic earnings per share increased to $.99 from $.72.

**FISCAL 1999 COMPARED TO FISCAL 1998**

The Company's formation of BioMer C.V. (“Biomet Merck”) in January 1998 (see Note C of Notes to Consolidated Financial Statements) expanded and enhanced its presence in the foreign orthopedic market and created new challenges for the Company. The Company responded positively to these challenges by posting record net sales and net income (excluding the impact of a $55 million special charge for litigation, net of $6.5 million in proceeds from 3i’s recovery in a litigation matter).

Net Sales – Net sales increased 17% from $706,150,000 in 1998 to $827,902,000 in 1999. This increase is the result of increased market penetration in the reconstructive device market (including the dental reconstructive implant segment), arthroscopy, softgoods, and spinal product segments and the inclusion of a full year of sales from Biomet Merck. The Company’s United States sales increased 10.5% to $548,510,000 from $496,219,000 in 1998. The Company’s EBI and Arthrotek product lines, as well as reconstructive revision products and 3i’s dental reconstructive implants, experienced strong U.S. growth during 1999. Foreign sales increased 33% from $299,931,000 in 1998 to $279,392,000 in 1999. Biomaterials products, 3i’s dental reconstructive implants and the inclusion of Biomet Merck for the full year are the major contributors to this increase. The Company’s worldwide reconstructive device sales increased 17% in 1999 from $444,228,000 in 1998 to $521,365,000 in 1999. This increase was led by sales of revision products, bone cements, the Ascent™ Total Knee System, 3i’s dental reconstructive implants and the inclusion of Biomet Merck for a full year. Fixation device sales increased 12% to $162,825,000 in 1999 from $144,853,000 in 1998. EBI’s DynaFix™ External Fixation System and Model 1200 EBI Bone Healing System, and Lorenz Surgical’s LactoSorb® Resorbable CranioMaxillofacial System experienced strong sales growth during the year. Spinal product sales increased 26% during the current year from $35,902,000 in 1998 to $45,125,000, led by EBI’s SpineLink™ Spinal Fixation System. The Company’s “other products” sales increased 21% to $98,587,000 from $81,167,000 in 1998, primarily from the inclusion of a full year of sales from Biomet Merck. In addition, Arthrotek experienced strong growth for its arthroscopy products, while the AOA® line of softgoods products continued to benefit from the Support-on-Site (S.O.S™) program.

Gross Profit – The Company’s gross profit increased 18% to $568,473,000 in 1999 from $481,849,000 in 1998. This increase was a result of increased sales of higher margin reconstructive products, including revision products, bone cements, and EBI’s fixation products. As a percentage of sales, gross profit was 68.7% in 1999 compared to 68.2% in 1998. Cost of sales increased 16% during the current year which is in line with the increase in net sales. The Company continues to improve its manufacturing efficiencies by monitoring labor and overhead costs as well as managing its inventory levels. Although net sales increased 17% during the year, inventories grew by only 10%.

Selling, General and Administrative Expenses – Selling, general and administrative expenses were $295,401,000 in 1999 compared to $256,509,000 in 1998. This represents an increase of 15% over the prior year. As a percentage of sales, selling, general and administrative expenses were 35.7% in 1999 and 36.3% in 1998. The current year’s increase is primarily due to an increase in commissions on product sales.

Research and Development Expense – Research and development expense decreased in 1999 to $38,723,000 from $39,731,000 in 1998. This decrease results from the purchase accounting for the acquisition of Biomet Merck whereby $9.8 million of the purchase price was allocated to acquired in-process research and development and expensed in 1998. Excluding this charge in 1998, research and development expense
increased 29% in 1999 compared with 1998, due to increased expenditures of Biomet Merck in the development of biomaterials products. The Company also experienced an increase in domestic research and development, including initial expenses related to the Company's investment in gene therapy technologies in the musculoskeletal products field. The Company will continue to invest heavily in research and development activities through Biomet Merck, expansion of its product base both domestically and internationally, and with its commitment to fund research and development efforts of Selective Genetics (see Note C of Notes to Consolidated Financial Statements).

Special Charges – As mentioned previously, the Company recorded a special charge of $55 million in connection with the Orthofix litigation, offset by $6.5 million in proceeds from 31's recovery in a litigation matter.

Other Income, Net – Other income decreased to $13,899,000 in 1999 compared to $23,452,000 in 1998. 1998 included a $15.2 million pre-tax gain on the deemed sale of the Company's European orthopedic operations in the formation of Biomet Merck. Excluding this gain, other income increased 68% due primarily to increased investment income on cash and investments.

Provision for Income Taxes – The provision for income taxes decreased to $67,317,000 for 1999, representing 33.7% of income before income taxes, compared to $81,058,000 in 1998, or 38.8% of income before income taxes. The decrease in the effective rate is due to the 1998 expensing of the purchased in-process research and development in the formation of Biomet Merck which generated no tax benefit. In addition, Biomet Merck benefitted from a one time $4.2 million tax credit in the fourth quarter of 1999. The Company will continue to be adversely affected by changes in the Puerto Rican local tax structure which reduces the historical U.S. tax benefits from operating in Puerto Rico.

Net Income – As a result of the special charges mentioned earlier, the Company experienced a decrease in net income and basic earnings per share for 1999 as compared to 1998. Net income decreased to $125,026,000 from $127,859,000 and basic earnings per share decreased to $.72 from $.74.

LIQUIDITY AND CAPITAL RESOURCES

The Company generates significant, predictable cash flows from its business operations. Management believes that these cash flows are sufficient to fund its operating needs, service debt, pay dividends and acquire business entities. At May 31, 2000, cash and cash investments totaled $407,268,000, an increase of $68,250,000 from the prior year. Net cash provided by operating activities was $130,570,000 in 2000 compared to $152,605,000 in 1999. The principal uses of operating cash flows were a decrease in accrued litigation of $55,000,000 and increases in accounts and notes receivable of $31,326,000 and inventories of $27,429,000. These decreases were more than offset by net income, non-cash charges for depreciation and amortization of $39,766,000 and other positive cash flow changes in working capital. Included in the aforementioned changes were decreases in accounts and notes receivable and inventories attributable to the decrease from May 31, 1999 to May 31, 2000, in the exchange rates used to convert the financial statements of Biomet's foreign subsidiaries from their functional local currency to the U.S. dollar. These decreases were immaterial and did not affect the Company's earnings during the year because foreign currency translation adjustments to balance sheet items are recognized as a component of shareholders' equity in the Company's consolidated balance sheet. These adjustments are included in comprehensive income in the Company's consolidated statements of shareholders' equity. The Company will continue to be exposed to the effects of foreign currency translation adjustments. The Company expects that operating cash flows in the near future will be primarily determined by levels of net income and working capital requirements.

Cash flows used in investing activities were $67,650,000 in 2000 compared to $172,702,000 in 1999. The primary uses of cash for investing activities were purchases of investments, capital expenditures and business acquisitions, partially offset by proceeds from sales and maturities of investments.

Cash flows from financing activities were $20,840,000 in 2000 compared to $28,588,000 in 1999. The primary sources of cash from financing activities were Biomet Merck's use of an unsecured line of credit from a major European bank and proceeds from issuance of shares. Cash flows used in financing activities included payment of long-term obligations and a cash dividend of $.09 per share ($.14 per share pre-split) paid to shareholders on August 6, 1999. On July 6, 2000, the Company announced a cash dividend of $.11 per share ($.16 per share pre-split), payable July 17, 2000, to shareholders of record at the close of business on July 10, 2000. The Company maintains its cash and investments in money market funds, certificates of deposits, commercial paper, debt instruments, mortgage-backed securities and equity securities. The Company's investment policy is to preserve principal and avoid significant risk. The Company is exposed to interest rate risk on its debt instruments, fixed rate preferred equity securities and mortgage-backed securities.

The Company expects that capital spending for the foreseeable future will continue to be at levels at least as high as 2000 and 1999. The Company continues to research potential acquisition candidates in order to expand its worldwide market presence. The Company intends to continue to purchase technologically advanced manufacturing and research and development equipment in order to remain competitive. The Company expects to spend in excess of $150 million over the next two fiscal years for capital expenditures and research and development activities, including the commitment to Selective Genetics to fund research and development efforts over a ten-year period. The Company continues to believe in the future of biomaterials and will fund biomaterials research and development activities overseas through Biomet Merck. Funding of these activities are expected to come from currently available funds and cash flows generated from future operations.
(in thousands, except earnings per share)

<table>
<thead>
<tr>
<th>Year</th>
<th>1st Qtr.</th>
<th>2nd Qtr.</th>
<th>3rd Qtr.</th>
<th>4th Qtr.</th>
<th>Year Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$212,709</td>
<td>$224,747</td>
<td>$232,910</td>
<td>$250,216</td>
<td>$920,582</td>
</tr>
<tr>
<td>1999</td>
<td>$192,909</td>
<td>$201,459</td>
<td>$209,691</td>
<td>$223,843</td>
<td>$827,902</td>
</tr>
<tr>
<td>1998</td>
<td>$161,588</td>
<td>$169,967</td>
<td>$174,142</td>
<td>$200,453</td>
<td>$706,150</td>
</tr>
</tbody>
</table>

Gross profit

<table>
<thead>
<tr>
<th>Year</th>
<th>1st Qtr.</th>
<th>2nd Qtr.</th>
<th>3rd Qtr.</th>
<th>4th Qtr.</th>
<th>Year Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>148,243</td>
<td>156,349</td>
<td>162,517</td>
<td>175,091</td>
<td>642,200</td>
</tr>
<tr>
<td>1999</td>
<td>131,885</td>
<td>137,693</td>
<td>143,552</td>
<td>155,343</td>
<td>568,473</td>
</tr>
<tr>
<td>1998</td>
<td>110,588</td>
<td>116,060</td>
<td>118,911</td>
<td>136,290</td>
<td>481,849</td>
</tr>
</tbody>
</table>

Net income

<table>
<thead>
<tr>
<th>Year</th>
<th>1st Qtr.</th>
<th>2nd Qtr.</th>
<th>3rd Qtr.</th>
<th>4th Qtr.</th>
<th>Year Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>41,172</td>
<td>38,786</td>
<td>43,192</td>
<td>50,621</td>
<td>173,771</td>
</tr>
<tr>
<td>1999</td>
<td>34,391</td>
<td>37,150</td>
<td>38,342</td>
<td>15,143</td>
<td>125,026</td>
</tr>
<tr>
<td>1998</td>
<td>29,775</td>
<td>31,248</td>
<td>32,040</td>
<td>34,796</td>
<td>127,859</td>
</tr>
</tbody>
</table>

Earnings per share:

<table>
<thead>
<tr>
<th>Year</th>
<th>Basic</th>
<th>Diluted</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>.24</td>
<td>.23</td>
</tr>
<tr>
<td>1999</td>
<td>.20</td>
<td>.19</td>
</tr>
<tr>
<td>1998</td>
<td>.17</td>
<td>.17</td>
</tr>
</tbody>
</table>

• All per share data have been adjusted to give retroactive effect to the three-for-two stock split declared on July 6, 2000.
• All quarterly financial information for periods prior to December 16, 1999 have been restated to reflect the merger with 3i, which has been accounted for as a pooling-of-interests.
• The operating results for the second quarter of fiscal 2000 were adversely impacted by a $9 million special charge related to the final determination of the interest element of the final Orthofix judgment.
• The operating results for the third quarter of fiscal 2000 were adversely impacted by a $2.7 million special charge relating to the closing of the merger with 3i.
• The operating results for the fourth quarter of fiscal 1999 were adversely impacted by a $55 million special charge related to the appellate court's decision against the Company in the Orthofix litigation and positively impacted by a $6.5 million special credit which represented 3i's share of certain litigation proceeds.

Osteoarthritis affects an estimated 20.7 million Americans, mostly after age 45. This is approximately 1/2 of the 43 million Americans having 1 of the more than 100 forms of arthritis as reported by the Arthritis Foundation.
## BIOMET, INC. AND SUBSIDIARIES
### CONSOLIDATED STATEMENTS OF INCOME

For the years ended May 31,
(in thousands, except per share amounts)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
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<td>48,447</td>
<td>–</td>
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<tr>
<td>Operating income</td>
<td>263,674</td>
<td>185,902</td>
<td>185,609</td>
</tr>
<tr>
<td>Other income, net</td>
<td>20,211</td>
<td>15,810</td>
<td>24,301</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(3,193)</td>
<td>(1,911)</td>
<td>(849)</td>
</tr>
<tr>
<td>Income before income taxes and minority interest</td>
<td>280,692</td>
<td>199,801</td>
<td>209,061</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>99,738</td>
<td>67,317</td>
<td>81,058</td>
</tr>
<tr>
<td>Income before minority interest</td>
<td>180,954</td>
<td>132,484</td>
<td>128,003</td>
</tr>
<tr>
<td>Minority interest</td>
<td>7,183</td>
<td>7,458</td>
<td>144</td>
</tr>
<tr>
<td>Net income</td>
<td>$173,771</td>
<td>$125,026</td>
<td>$127,859</td>
</tr>
</tbody>
</table>

Earnings per share:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>$ .99</td>
<td>$.72</td>
<td>$.74</td>
</tr>
<tr>
<td>Diluted</td>
<td>.98</td>
<td>.71</td>
<td>.73</td>
</tr>
</tbody>
</table>

Shares used in the computation of earnings per share:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>176,196</td>
<td>174,441</td>
<td>173,553</td>
</tr>
<tr>
<td>Diluted</td>
<td>178,161</td>
<td>177,210</td>
<td>176,420</td>
</tr>
</tbody>
</table>

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

**Current assets:**
- Cash and cash equivalents: 
- Accounts and notes receivable, less allowance for doubtful receivables:
  (2000 – $8,241 and 1999 – $7,262) 
- Inventories 
- Deferred and refundable income taxes 
- Prepaid expenses and other 
- Total current assets 

**Property, plant and equipment:**
- Land and improvements 
- Buildings and improvements 
- Machinery and equipment 
- Less, Accumulated depreciation 
- Property, plant and equipment, net 

**Intangible assets, net of accumulated amortization:**
- Investments 
- Other assets 

**Deferred and refundable income taxes:**

**Prepaid expenses and other assets:**

**Investments:**

**Land and improvements:**

**Property, plant and equipment:**

**Prepaid expenses and other:**

**Inventories:**

**Accounts payable:**

**Short-term borrowings and current maturities of long-term obligations:**

**Liabilities and Shareholders’ Equity**

**Current liabilities:**
- Accounts payable 
- Accrued income taxes 
- Accrued wages and commissions 
- Accrued litigation 
- Other accrued expenses 
- Total current liabilities 

**Long-term obligations:**

**Deferred federal income taxes:**

**Other liabilities:**

**Total liabilities:**

**Redeemable convertible cumulative preferred stock:**

**Minority interest:**

**Shareholders’ equity:**
- Preferred shares, $100 par value: Authorized 5 shares; none issued 
- Common shares, without par value: Authorized 500,000 shares; issued and outstanding 2000 – 177,653 shares and 1999 – 174,845 shares 
- Additional paid-in capital 
- Retained earnings 
- Accumulated other comprehensive loss 
- Total shareholders’ equity 

**Total liabilities and shareholders’ equity:**

---

The accompanying notes are a part of the consolidated financial statements.
Accumulated
Additional
Other
Retained
Comprehensive
Common Shares
Number
Amount
Paid-In
Capital
Earnings
Income (Loss)
Shareholders’
Equity
(in thousands, except per share amounts)

<table>
<thead>
<tr>
<th>Balance at June 1, 1997</th>
<th>172,798</th>
<th>$73,594</th>
<th>$17,382</th>
<th>$479,218</th>
<th>$ (9,210)</th>
<th>$560,984</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>127,859</td>
<td>–</td>
<td>127,859</td>
</tr>
<tr>
<td>Unrealized holding gains on investments, net of $166 tax expense</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>248</td>
<td>248</td>
</tr>
<tr>
<td>Reclassification adjustment for gains included in net income, net of $302 tax expense</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>454</td>
<td>454</td>
</tr>
<tr>
<td>Currency translation adjustments</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(4,156)</td>
<td>(4,156)</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>124,405</td>
<td>124,405</td>
</tr>
<tr>
<td>Exercise of stock options</td>
<td>1,244</td>
<td>2,125</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2,125</td>
</tr>
<tr>
<td>Tax benefit from exercise of stock options</td>
<td>–</td>
<td>–</td>
<td>3,208</td>
<td>–</td>
<td>–</td>
<td>3,208</td>
</tr>
<tr>
<td>Cash dividends ($0.07 per common share)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(12,256)</td>
<td>–</td>
<td>(12,256)</td>
</tr>
<tr>
<td>Other</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(4,156)</td>
<td>(154)</td>
<td>(154)</td>
</tr>
<tr>
<td>Balance at May 31, 1998</td>
<td>174,042</td>
<td>75,719</td>
<td>20,586</td>
<td>594,671</td>
<td>(12,664)</td>
<td>678,312</td>
</tr>
<tr>
<td>Net income</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>125,026</td>
<td>–</td>
<td>125,026</td>
</tr>
<tr>
<td>Unrealized holding losses on investments, net of $914 tax benefit</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(1,257)</td>
<td>(1,257)</td>
</tr>
<tr>
<td>Reclassification adjustment for gains included in net income, net of $82 tax expense</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>123</td>
<td>123</td>
</tr>
<tr>
<td>Currency translation adjustments</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(2,568)</td>
<td>(2,568)</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>121,335</td>
<td>121,335</td>
</tr>
<tr>
<td>Exercise of stock options</td>
<td>802</td>
<td>2,131</td>
<td>6,500</td>
<td>–</td>
<td>–</td>
<td>8,631</td>
</tr>
<tr>
<td>Tax benefit from exercise of stock options</td>
<td>–</td>
<td>–</td>
<td>1,211</td>
<td>–</td>
<td>–</td>
<td>1,211</td>
</tr>
<tr>
<td>Cash dividends ($0.08 per common share)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(13,453)</td>
<td>–</td>
<td>(13,453)</td>
</tr>
<tr>
<td>Other</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(26)</td>
<td>(150)</td>
<td>(176)</td>
</tr>
<tr>
<td>Balance at May 31, 1999</td>
<td>174,844</td>
<td>77,850</td>
<td>28,271</td>
<td>706,094</td>
<td>(16,366)</td>
<td>795,849</td>
</tr>
<tr>
<td>Net income</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>173,771</td>
<td>–</td>
<td>173,771</td>
</tr>
<tr>
<td>Unrealized holding losses on investments, net of $5,638 tax benefit</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(10,467)</td>
<td>(10,467)</td>
</tr>
<tr>
<td>Reclassification adjustment for gains included in net income, net of $344 tax expense</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>638</td>
<td>638</td>
</tr>
<tr>
<td>Currency translation adjustments</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(23,030)</td>
<td>(23,030)</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>140,912</td>
<td>140,912</td>
</tr>
<tr>
<td>Net earnings of 3i for the five months ended May 31, 1999</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2,076</td>
<td>–</td>
<td>2,076</td>
</tr>
<tr>
<td>Exercise of stock options</td>
<td>1,703</td>
<td>7,235</td>
<td>4,418</td>
<td>–</td>
<td>–</td>
<td>11,653</td>
</tr>
<tr>
<td>Exercise of warrants and conversion of preferred stock</td>
<td>1,106</td>
<td>1</td>
<td>2,504</td>
<td>–</td>
<td>–</td>
<td>2,505</td>
</tr>
<tr>
<td>Tax benefit from exercise of stock options</td>
<td>–</td>
<td>–</td>
<td>6,258</td>
<td>–</td>
<td>–</td>
<td>6,258</td>
</tr>
<tr>
<td>Cash dividends ($0.09 per common share)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(15,785)</td>
<td>–</td>
<td>(15,785)</td>
</tr>
<tr>
<td>Other</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(145)</td>
<td>–</td>
<td>(145)</td>
</tr>
<tr>
<td>Balance at May 31, 2000</td>
<td>177,653</td>
<td>$85,086</td>
<td>$41,451</td>
<td>$866,011</td>
<td>$(49,225)</td>
<td>$943,323</td>
</tr>
</tbody>
</table>

The accompanying notes are a part of the consolidated financial statements.
BIOMET, INC.
AND
SUBSIDIARIES
CONSOLIDATED
STATEMENTS
OF
CASH FLOWS

For the years ended May 31,
(in thousands)

Cash flows from (used in) operating activities:
Net income .................................................................................................................. $173,771 $125,026 $127,859
Adjustments to reconcile net income to net cash from operating activities:
Depreciation .............................................................................................................. 30,678 23,689 18,661
Amortization ............................................................................................................. 9,088 8,385 6,728
Minority interest ...................................................................................................... 7,183 7,458 144
Other ......................................................................................................................... (1,467) 5,672 (1,515)
Write-off of purchased in-process research and development .................................. – – 9,764
Deemed gain on sale of European operations .......................................................... – – (15,222)
Deferred federal income taxes .................................................................................. (9,037) (3,323) 9,568
Changes in current assets and liabilities, excluding effects of acquisitions and dispositions:
Accounts and notes receivable ................................................................................... (31,326) (24,459) (27,360)
Inventories ................................................................................................................ (27,429) (26,689) (9,711)
Accounts payable .................................................................................................... (2,089) 5,604 (823)
Accrued litigation ..................................................................................................... (55,000) 55,000 –
Other ......................................................................................................................... 37,198 (23,758) 6,693
Net cash from operating activities ............................................................................. 131,570 152,605 124,786

Cash flows from (used in) investing activities:
Proceeds from sales and maturities of investments .................................................. 45,826 33,008 51,934
Purchases of investments ......................................................................................... (46,491) (135,891) (68,206)
Capital expenditures ............................................................................................... (43,067) (53,570) (45,762)
Acquisitions, net of cash acquired ......................................................................... (22,177) (3,437) (16,020)
Other ......................................................................................................................... (1,741) (12,812) (2,177)
Net cash from (used in) investing activities .............................................................. (67,650) (172,702) (80,231)

Cash flows from (used in) financing activities:
Increase in short-term borrowings ........................................................................... 27,056 39,761 1,814
Payment of long-term obligations .......................................................................... (7,664) (1,062) (702)
Issuance of shares ................................................................................................... 11,658 2,131 2,125
Tax benefit from exercise of stock options ................................................................ 8,258 1,211 3,208
Cash dividends ........................................................................................................ (16,968) (13,453) (12,256)
Net cash from (used in) financing activities ............................................................. 20,840 28,588 (5,811)
Effect of exchange rate changes on cash ................................................................. (3,235) 2,814 (2,067)
Increase in cash and cash equivalents .................................................................... 81,525 11,305 36,677
Cash and cash equivalents, beginning of year .......................................................... 132,081 120,776 84,099
Cash and cash equivalents, end of year ................................................................. $213,606 $132,081 $120,776

Supplemental disclosures of cash flow information:
Cash paid during the year for:
Interest .................................................................................................................. $ 3,807 $ 1,974 $ 891
Income taxes .......................................................................................................... 69,555 90,318 70,136

Noncash investing and financing activities:
Deemed sale of 50% of the net assets of the Company’s European business in the formation of Biomet Merck ...................................................................................... – – 48,000
Liabilities assumed in business acquisitions .......................................................... 3,190 6,400 12,439
Capital leases entered into for the acquisition of property and equipment .......... 1,619 929
Dividends accrued on redeemable preferred stock ................................................. 81 150 150
Redeemable preferred stock converted to common shares .................................. 2,500 – –

The accompanying notes are a part of the consolidated financial statements.
NOTE A: NATURE OF OPERATIONS.

Biomet, Inc. and its subsidiaries design, manufacture and market products used primarily by musculoskeletal medical specialists in both surgical and nonsurgical therapy, including reconstructive and fixation devices, electrical bone growth stimulators, orthopedic support devices, operating room supplies, general surgical instruments, arthroscopy products, spinal implants, bone cements, bone substitute materials, craniofacial implants and dental reconstructive implants and associated instrumentation. Headquartered in Warsaw, Indiana, Biomet and its subsidiaries currently distribute products in more than 100 countries.

NOTE B: ACCOUNTING POLICIES.

The following is a summary of the accounting policies adopted by Biomet, Inc. and subsidiaries which have a significant effect on the consolidated financial statements.

Basis of Presentation – The consolidated financial statements include the accounts of Biomet, Inc. and its subsidiaries (individually and collectively, the “Company”). All foreign subsidiaries are consolidated on the basis of an April 30 fiscal year. Investments in less than 20% owned affiliates are accounted for on the cost method, the carrying amount of which approximates market. Investments in 20% to 50% owned affiliates are accounted for on the equity method. The financial statements of BioMer C.V. (see Note C) are consolidated because the Company has the ability to exercise significant influence and control over this entity. The minority shareholder’s 50% interest in BioMer C.V. is reflected as minority interest.

The consolidated financial statements and related financial data for all prior periods have been restated to reflect the merger with Implant Innovations International Corporation (see Note C) which was accounted for as a pooling-of-interests.

Use of Estimates – The consolidated financial statements are prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are based on management’s best estimates and judgments.

Translation of Foreign Currency – Assets and liabilities of foreign subsidiaries are translated at rates of exchange in effect at the close of their fiscal year. Revenues and expenses are translated at the weighted average exchange rates during the year. Translation gains and losses are accumulated within other comprehensive income (loss) as a separate component of shareholders’ equity. Foreign currency transaction gains and losses, which are not material, are included in other income, net.

Cash and Cash Equivalents – The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Inventories – Inventories are stated at the lower of cost or market, with cost determined under the first-in, first-out method.

Property, Plant and Equipment – Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is computed based on the estimated useful lives using the straight-line method. Gains or losses on the disposition of property, plant and equipment are included in income. Maintenance and repairs are expensed as incurred.

Intangible Assets – Intangible assets consist primarily of patents, trademarks, product technology, acquired license agreements and other identifiable intangible assets and are carried at cost less accumulated amortization. Amortization of intangibles is computed based on the straight-line method over periods ranging from three to fifteen years.

Excess Acquisition Costs Over Fair Value of Acquired Net Assets – Excess acquisition costs over fair value of acquired net assets (goodwill) are amortized using the straight-line method over periods ranging from eight to twenty years. The carrying value of goodwill is reviewed as circumstances warrant by the Company based on the expected future undiscounted operating cash flows of the related business unit. The Company believes no material impairment of goodwill exists at May 31, 2000.
NOTE B: ACCOUNTING POLICIES, CONCLUDED.

Income Taxes – Deferred income taxes are determined using the liability method. No provision has been made for U.S. and state income taxes or foreign withholding taxes on the undistributed earnings ($90.7 million at May 31, 2000) of foreign subsidiaries because it is expected that such earnings will be reinvested overseas indefinitely. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. income taxes (subject to an adjustment for foreign tax credits), state income taxes and withholding taxes payable to the various foreign countries. Determination of the amount of any unrecognized deferred income tax liability on these undistributed earnings is not practical.

Fair Value of Financial Instruments – The carrying amounts of cash and cash equivalents, receivables, short-term borrowings, long-term obligations, accounts payable and accruals that meet the definition of a financial instrument approximate fair value. The fair value of investments is disclosed in Note D.

Revenue Recognition, Concentrations of Credit Risk and Allowance for Doubtful Receivables – Revenue is recognized when the product is shipped to the healthcare provider. The Company provides credit, in the normal course of business, to hospitals, private and governmental institutions and healthcare agencies, insurance providers and physicians. The Company maintains an allowance for doubtful receivables and charges actual losses to the allowance when incurred. The Company invests the majority of its excess cash in certificates of deposit with financial institutions, money market securities, short-term municipal securities and common stocks. The Company does not believe it is exposed to any significant credit risk on its cash and cash equivalents and investments. At May 31, 2000 and 1999, cash and cash equivalents and investments included $65 million and $48 million, respectively, of cash deposits and certificates of deposit with financial institutions in Puerto Rico. Also, at May 31, 2000 and 1999, investments included $18 million and $27 million, respectively, of municipal bonds issued by state and local subdivisions in Puerto Rico.

Stock-Based Compensation – The Company has not adopted the measurement requirements of SFAS No. 123, “Accounting for Stock-Based Compensation,” for stock option grants to Team Members and, accordingly, has made all of the required pro forma disclosures for the years ended May 31, 2000, 1999 and 1998.

Comprehensive Income – Other comprehensive income refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but are excluded from net income as these amounts are recorded directly as an adjustment to shareholders’ equity. The Company’s other comprehensive income is comprised of unrealized gains (losses) on available-for-sale securities, net of tax, and foreign currency translation adjustments.

The components of accumulated other comprehensive income (loss) at May 31, 2000 and 1999 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net unrealized holding gain (loss) on investments</td>
<td>$(9,221)</td>
<td>$608</td>
</tr>
<tr>
<td>Cumulative translation adjustment</td>
<td>(40,004)</td>
<td>(16,974)</td>
</tr>
<tr>
<td>Total</td>
<td>$(49,225)</td>
<td>$(16,366)</td>
</tr>
</tbody>
</table>

Special Charges – Special charges of $11.7 million for the year ended May 31, 2000 are comprised of $2.7 million of merger costs related to the 3i merger (see Note C) and $9.0 million for the final determination of the interest element of the final judgment in the Orthofix litigation (see Note L). The special charges of $48.5 million for the year ended May 31, 1999 were comprised of a $35 million final judgment against the Company in the action brought by Orthofix, net of $6.5 million in proceeds from 3i’s recovery in a litigation matter.

Pending Accounting Pronouncements – In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities.” SFAS No. 133 is effective for fiscal periods beginning after June 15, 2000. SFAS No. 133 requires all derivatives to be measured at fair value and recognized as assets or liabilities on the balance sheet. Changes in the fair value of derivatives should be recognized in either net income or other comprehensive income, depending on the designated purpose of the derivative. This pronouncement is not expected to have a material impact on the Company’s financial position or results of operations.
NOTE C: BUSINESS COMBINATIONS.

Implant Innovations International Corporation — On December 16, 1999, the Company and Implant Innovations International Corporation ("3i") completed a merger transaction. The Company issued 7.8 million Common Shares for all of 3i's issued and outstanding shares. 3i and its subsidiaries design, develop, manufacture, market, and distribute oral reconstructive products. 3i's corporate headquarters and manufacturing facility are located in Palm Beach Gardens, Florida, and it has sales offices in Canada, Europe and Mexico. The business combination has been accounted for as a pooling-of-interests whereby all prior period financial statements of the Company have been restated to include the combined financial position, results of operations and cash flows of the Company and 3i. 3i's fiscal year-end was December 31 and, accordingly, the financial information for the fiscal years ended May 31, 1999 and 1998 include 3i's financial information for its calendar years ended December 31, 1998 and 1997, respectively. For the year ended May 31, 2000, the reporting period of 3i's statements of income and cash flows has been conformed to the Company's May 31 fiscal year. As a result, 3i's results of operations for the five-month period ended May 31, 1999, have been excluded from the reported results of operations and, therefore, have been added to the Company's retained earnings in the year ended May 31, 2000. 3i had net sales, expense and net income of $31,193,000, $29,181,000, and $2,076,000, respectively, for the five-month period ended May 31, 1999. For 1999 and 1998, net sales and net income of 3i were $70,488,000 and $54,745,000, respectively, for net sales and $8,676,000 and $3,133,000, respectively, for net income. For the period June 1, 1999 through the date of acquisition, December 16, 1999, net sales and net income were $42,825,000 and $4,511,000, respectively. The Company recorded a one-time pretax charge of $2.7 million for merger-related costs during the third quarter of fiscal year 2000.

Biomet Merck Joint Venture — Effective January 1, 1998, the Company and Merck KGaA, Darmstadt, Germany ("Merck KGaA") entered into a Joint Venture Agreement (the "Agreement") to manufacture and sell orthopedic and biomaterial-based products in Europe. Under the terms of the Agreement, the Company and Merck KGaA each contributed its European orthopedic and biomaterials business operations to a new partnership entity and its wholly owned holding company. Both the partnership and holding company (collectively "Biomet Merck") are organized under the laws of The Netherlands. The Company is the general partner with a 50% interest and Merck KGaA is a limited partner with a 50% interest. The Company has control of Biomet Merck through its voting control of the board of directors and, accordingly, the Company has consolidated the financial statements of Biomet Merck for financial reporting beginning January 1, 1998 and has shown a minority interest for Merck KGaA's 50% interest.

The fair value of 50% of the Company's European orthopedic operations, which were deemed to have been sold to Merck KGaA in the formation of Biomet Merck, aggregated $48 million and resulted in a $15.2 million pre-tax gain which was reported in fiscal 1998. Deferred tax expense of $5.3 million was recognized in conjunction with recording this gain.

The formation of Biomet Merck was accounted for as a purchase and the operating results of Biomet Merck have been consolidated from the date of acquisition. Based on the fair value of the acquired net assets of Biomet Merck, the excess acquisition cost over fair value for the net tangible assets aggregated $21.7 million. This excess was allocated as follows: $9.8 million to purchased in-process research and development ("R&D") and $11.9 million to other identified intangible assets and goodwill to be amortized over 8 to 15 years using the straight-line method. Purchased in-process R&D included the value of products that were in the development stage for which the technological feasibility had not yet been established and the technology had no alternative use. In accordance with applicable accounting rules, purchased in-process R&D was expensed and, accordingly, $9.8 million of the acquisition cost was expensed in fiscal 1998.

Unaudited pro forma net sales for the year ended May 31, 1998, as if Biomet Merck had been acquired at the beginning of the period, were $698 million. Pro forma net income and earnings per share for the year ended May 31, 1998, is not presented as it would not be materially different from the Company's historical results.

Other Acquisitions — During fiscal years 2000, 1999 and 1998, the Company has completed several acquisitions of foreign distributors and or businesses. The acquisitions were accounted for using the purchase method of accounting with the operating results of the acquired businesses included in the Company's consolidated financial statements from the date of acquisition. Goodwill recognized in connection with these acquisitions aggregated $19.8 million, $1.3 million and $9.0 million for the years ended May 31, 2000, 1999 and 1998, respectively. Pro forma financial information reflecting these acquisitions has not been presented as it is not materially different from the Company's historical results.

Investment in Affiliate — In April 1999, the Company entered into an agreement with Selective Genetics, Inc. ("Selective Genetics"). Under the terms of the agreement, the Company paid $5 million cash for Series C preferred stock of Selective Genetics. In April 2000, the Company made an additional investment of $640,000 to acquire shares of Series D preferred stock of Selective Genetics. The Company accounts for this investment on the cost method. Under the agreement, the Company will fund as incurred certain defined research and development efforts of Selective Genetics over a ten-year period (see Note L) in exchange for license rights to market certain products to be manufactured by Selective Genetics.
NOTE D: INVESTMENTS.
At May 31, 2000, the Company’s investment securities were classified as follows:

(in thousands)

<table>
<thead>
<tr>
<th>Available-for-sale:</th>
<th>Amortized Cost</th>
<th>Unrealized Gains</th>
<th>Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities</td>
<td>$140,907</td>
<td>$52</td>
<td>$(13,468)</td>
<td>$127,491</td>
</tr>
<tr>
<td>Equity securities</td>
<td>10,417</td>
<td>3,248</td>
<td>(1,522)</td>
<td>12,143</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>22,064</td>
<td>41</td>
<td>(2,537)</td>
<td>19,568</td>
</tr>
<tr>
<td>Total available-for-sale</td>
<td>173,388</td>
<td>3,341</td>
<td>(17,527)</td>
<td>159,202</td>
</tr>
</tbody>
</table>

Held-to-maturity:

| Debt securities     | 11,895         | 53                | (31)              | 11,917     |
| Mortgage-backed obligations | 6,465       | –                 | (172)             | 6,293      |
| Total held-to-maturity | 18,360      | 53                | (203)             | 18,210     |
| Certificates of deposit | 16,100      | –                 | –                 | 16,100     |
| Total               | $207,848       | $3,394            | $(17,730)         | $193,512   |

At May 31, 1999, the Company’s investment securities were classified as follows:

(in thousands)

<table>
<thead>
<tr>
<th>Available-for-sale:</th>
<th>Amortized Cost</th>
<th>Unrealized Gains</th>
<th>Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities</td>
<td>$113,823</td>
<td>$350</td>
<td>$(1,860)</td>
<td>$112,313</td>
</tr>
<tr>
<td>Equity securities</td>
<td>6,057</td>
<td>2,998</td>
<td>(544)</td>
<td>8,511</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>20,389</td>
<td>200</td>
<td>(207)</td>
<td>20,382</td>
</tr>
<tr>
<td>Total available-for-sale</td>
<td>140,269</td>
<td>3,548</td>
<td>(2,611)</td>
<td>141,206</td>
</tr>
</tbody>
</table>

Held-to-maturity:

| Debt securities     | 19,569         | 324               | (21)              | 19,872     |
| Mortgage-backed obligations | 6,965       | 7                 | (526)             | 6,443      |
| Total held-to-maturity | 26,531      | 331               | (547)             | 26,315     |
| Certificates of deposit | 39,200      | –                 | –                 | 39,200     |
| Total               | $206,000       | $3,879            | $(3,158)          | $206,721   |

Proceeds from sales of available-for-sale securities were $7,340,000, $17,618,000 and $27,504,000 for the years ended May 31, 2000, 1999 and 1998, respectively. There were no sales of held-to-maturity securities for the years ended May 31, 2000, 1999 and 1998. The cost of marketable securities sold is determined by the specific identification method. For the year ended May 31, 2000, gross realized gains and (losses) on sales of available-for-sale securities were $1,581,000 and $(330,000), respectively. Gross realized gains and (losses) for the year ended May 31, 1999 were $1,635,000 and $(384,000), respectively. Gross realized gains and (losses) for the year ended May 31, 1998 were $1,609,000 and $(80,000), respectively. The Company’s investment securities at May 31, 2000 include $13,000,000 of certificates of deposit, and $21,129,000 of debt securities all maturing within one year, and $3,100,000 of certificates of deposit, $118,257,000 of debt securities, $12,143,000 of equity securities and $26,033,000 of mortgage-backed securities all maturing past one year.

Investment income (included in other income, net) consists of the following:

(Thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>$15,640</td>
<td>$10,451</td>
<td>$6,384</td>
</tr>
<tr>
<td>Dividend income</td>
<td>$5,851</td>
<td>$4,361</td>
<td>$2,701</td>
</tr>
<tr>
<td>Net realized gains</td>
<td>$1,251</td>
<td>$1,251</td>
<td>$1,529</td>
</tr>
<tr>
<td>Total</td>
<td>$22,742</td>
<td>$16,063</td>
<td>$10,614</td>
</tr>
</tbody>
</table>
NOTE E: INVENTORIES.

Inventories at May 31, 2000 and 1999 consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>$28,511</td>
<td>$27,294</td>
</tr>
<tr>
<td>Work-in-progress</td>
<td>20,962</td>
<td>30,003</td>
</tr>
<tr>
<td>Finished goods</td>
<td>101,307</td>
<td>96,007</td>
</tr>
<tr>
<td>Consigned distributor</td>
<td>81,382</td>
<td>67,283</td>
</tr>
<tr>
<td>Total</td>
<td>$240,162</td>
<td>$220,587</td>
</tr>
</tbody>
</table>

NOTE F: DEBT.

At May 31, 2000 and 1999, short-term borrowings, including current maturities of long-term obligations, consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank line of credit – BioMer C.V.</td>
<td>$68,718</td>
<td>$45,137</td>
</tr>
<tr>
<td>Bank line of credit – 3i</td>
<td>–</td>
<td>3,472</td>
</tr>
<tr>
<td>Current maturities of long-term obligations</td>
<td>1,828</td>
<td>1,040</td>
</tr>
<tr>
<td>Total</td>
<td>$70,546</td>
<td>$49,649</td>
</tr>
</tbody>
</table>

BioMer C.V. (through its wholly owned financing subsidiary, Biomet Merck B.V.) has a EUR 71 million unsecured line of credit with a major European bank. This line of credit is used to finance Biomet Merck’s European operations and interest on outstanding borrowings is payable monthly at the lender’s interbank rate plus 1% (effective rate of 4.25% and 3.53% at May 31, 2000 and 1999, respectively). Prior to its acquisition by the Company, 3i had short-term borrowings under a $10 million bank line of credit.

At May 31, 2000 and 1999, long-term obligations consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subordinated debentures – 3i</td>
<td>$ –</td>
<td>$2,902</td>
</tr>
<tr>
<td>Capital lease obligations, less current maturities – 3i</td>
<td>–</td>
<td>2,134</td>
</tr>
<tr>
<td>Total</td>
<td>$ –</td>
<td>$5,036</td>
</tr>
</tbody>
</table>

Prior to the merger, 3i had outstanding subordinated debentures, with detachable common stock purchase warrants. The warrants were exercised prior to the merger (see Notes C and I) and the debentures and accrued interest were repaid at the time of the merger. 3i leased certain equipment under capital leases and the capital lease obligations have been classified as a current liability at May 31, 2000, since the Company intends to repay the capital lease obligations during the next twelve months.

NOTE G: TEAM MEMBER BENEFIT PLANS.

The Company has an Employee Stock Bonus Plan for eligible Team Members of the Company and certain subsidiaries. The amounts expensed under this plan for the years ended May 31, 2000, 1999 and 1998 were $2,845,000, $2,652,000, and $2,280,000, respectively.

The Company also has a defined contribution profit sharing plan which covers substantially all of the Team Members within the continental U.S. and allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Company may match up to 75% of the Team Member's contribution up to a maximum of 5% of the Team Member's compensation. Prior to the merger, 3i maintained a defined contribution profit sharing plan which covered substantially all of its full-time employees. The 3i plan was frozen as of the merger date and the 3i Team Members became eligible to participate in the Company's 401(k) plan. The amounts expensed under these profit sharing plans for the years ended May 31, 2000, 1999 and 1998 were $3,252,000, $2,051,000, and $1,674,000, respectively.

Biomet Merck has a defined benefit pension plan covering employees in certain countries. Pension expense and related pension obligations are immaterial to the consolidated financial statements.
NOTE H: STOCK OPTION PLANS.

The Company has various stock option plans: the 1984 Employee Stock Option Plan, as amended, the 1992 Employee and Non-Employee Director Stock Option Plan, the 1992 Distributor Stock Option Plan and the 1998 Qualified and Non-Qualified Stock Option Plan. At May 31, 1999, the only plan with shares available for grant is the 1998 Qualified and Non-Qualified Stock Option Plan.

Under the stock option plans, options may be granted to key employees, directors and distributors, at the discretion of the Stock Option Committee, and generally become exercisable in annual increments beginning one year after the date of grant in the case of employee options and in annual increments beginning at the date of grant for distributor options. In the case of options granted to an employee of the Company who is a 10% or more shareholder, the option price is an amount per share not less than 110% of the fair market value per share on the date of granting the option, as determined by the Stock Option Committee. No options have been granted to employees who are 10% or more shareholders. The option price for options granted to all other employees and directors is an amount per share not less than the fair market value per share on the date of granting the option. The term of each option granted expires within the period prescribed by the Stock Option Committee, but shall not be more than five years from the date the option is granted if the optionee is a 10% or more shareholder, and not more than ten years for all other optionees. All rights under the distributor options terminate upon the termination of an optionee’s distributorship with the Company unless such termination results from retirement, disability or death. For the years ended May 31, 2000, 1999 and 1998, the amount of compensation expense applicable to options granted to distributors was not material to the consolidated financial statements.

Prior to the merger, 3i had stock option plans for its key employees. Pursuant to the terms of the 3i stock option plans, all outstanding options, other than those already vested under their terms, became vested and exercisable as a result of the merger transaction. Holders of options under the 3i stock option plans exercised all outstanding options immediately prior to the merger and such 3i common shares were then exchanged for the Company’s Common Shares in the merger transaction (see Note C).

The following table, which includes options under 3i’s stock option plans, summarizes stock option activity:

<table>
<thead>
<tr>
<th>Stock Option Plan</th>
<th>Number of Shares</th>
<th>Weighted-Average Exercise Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding, June 1, 1997</td>
<td>5,331,030</td>
<td>$7.54</td>
</tr>
<tr>
<td>Granted</td>
<td>1,805,561</td>
<td>13.96</td>
</tr>
<tr>
<td>Exercised</td>
<td>(1,221,540)</td>
<td>6.79</td>
</tr>
<tr>
<td>Terminated</td>
<td>(417,394)</td>
<td>6.61</td>
</tr>
<tr>
<td>Outstanding, May 31, 1998</td>
<td>5,497,657</td>
<td>9.77</td>
</tr>
<tr>
<td>Granted</td>
<td>1,989,070</td>
<td>20.49</td>
</tr>
<tr>
<td>Exercised</td>
<td>(1,007,684)</td>
<td>8.36</td>
</tr>
<tr>
<td>Terminated</td>
<td>(474,218)</td>
<td>8.59</td>
</tr>
<tr>
<td>Outstanding, May 31, 1999</td>
<td>6,004,825</td>
<td>13.07</td>
</tr>
<tr>
<td>Granted</td>
<td>2,143,251</td>
<td>18.07</td>
</tr>
<tr>
<td>Exercised</td>
<td>(1,633,147)</td>
<td>8.11</td>
</tr>
<tr>
<td>Terminated</td>
<td>(242,711)</td>
<td>13.00</td>
</tr>
<tr>
<td>Outstanding, May 31, 2000</td>
<td>6,272,218</td>
<td>$16.23</td>
</tr>
</tbody>
</table>

Osteoarthritis is responsible for more than 7 million physician visits per year, as reported by the Arthritis Foundation.
NOTE H: STOCK OPTION PLANS, CONCLUDED.

Options outstanding at May 31, 2000, are exercisable at prices ranging from $4.33 to $26.96 and have a weighted-average remaining contractual life of 4.5 years. The following table summarizes information about stock options outstanding at May 31, 2000.

<table>
<thead>
<tr>
<th>Range of Exercise Price</th>
<th>Number Outstanding at May 31, 2000</th>
<th>Outstanding Weighted-Average Remaining Contractual Life</th>
<th>Weighted-Average Exercise Price</th>
<th>Number Exercisable at May 31, 2000</th>
<th>Weighted Average Exercise Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 4.33 - 10.00</td>
<td>1,259,477</td>
<td>2.5 years</td>
<td>$ 8.40</td>
<td>710,705</td>
<td>$ 8.29</td>
</tr>
<tr>
<td>10.01 - 15.00</td>
<td>767,654</td>
<td>3.6 years</td>
<td>12.30</td>
<td>253,835</td>
<td>12.31</td>
</tr>
<tr>
<td>15.01 - 20.00</td>
<td>2,308,691</td>
<td>5.3 years</td>
<td>17.30</td>
<td>247,530</td>
<td>17.91</td>
</tr>
<tr>
<td>20.01 - 26.96</td>
<td>1,936,396</td>
<td>5.3 years</td>
<td>21.59</td>
<td>387,360</td>
<td>21.99</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,272,218</strong></td>
<td><strong>5.3 years</strong></td>
<td><strong>$ 21.59</strong></td>
<td><strong>1,599,430</strong></td>
<td><strong>21.99</strong></td>
</tr>
</tbody>
</table>

At May 31, 1999 and 1998, there were exercisable options outstanding to purchase 1,645,000 and 1,223,000 shares, respectively, at weighted-average exercise prices of $8.87 and $6.74, respectively.

As permitted by SFAS No. 123, the Company accounts for its employee stock options using the intrinsic value method. Accordingly, no compensation expense is recognized for the employee stock-based compensation plans, except for $6.5 million in fiscal year 1999 which related to certain team members who were allowed to surrender shares obtained through the exercise of an option to satisfy the exercise value. If compensation expense for the Company's employee stock options issued in fiscal years 2000, 1999 and 1998 had been determined based on the fair value method of accounting, pro forma net income and diluted earnings per share would have been as follows:

(in thousands, except per share data)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pro forma net income</td>
<td>$170,262</td>
<td>$122,815</td>
<td>$126,696</td>
</tr>
<tr>
<td>Pro forma diluted earnings per share</td>
<td>.96</td>
<td>.70</td>
<td>.73</td>
</tr>
<tr>
<td>The weighted-average fair value of options granted during the year</td>
<td>6.17</td>
<td>6.63</td>
<td>4.45</td>
</tr>
</tbody>
</table>

Under SFAS No. 123, the fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2000, 1999 and 1998: (1) expected life of option of 3.6 years; (2) dividend yield of .40%, .36% and .53%; (3) expected volatility of 35%, 33% and 33%; and (4) risk-free interest rate of 6.28%, 5.62% and 5.69%, respectively.

NOTE I: SHAREHOLDERS’ EQUITY AND EARNINGS PER SHARE.

On December 16, 1999, the Company issued 7.8 million common shares in connection with the business combination with 3i (see Note C). In connection with the business combination with 3i and under the existing terms of 3i’s Series A Cumulative convertible Preferred Stock, the holders of the 1,165,167 shares of preferred stock exercised their right to convert such preferred stock into a like number of shares of 3i’s common stock, which shares of 3i’s common stock were subsequently exchanged for Common Shares of Biomet in the merger transaction. In addition, cumulative accrued and unpaid dividends (fixed annual rate of 6%) aggregating $682,501 were paid to the holders of the preferred stock prior to the conversion to common stock. The holders of 3i’s preferred stock were also the holders of 3i’s subordinated debentures with detachable warrants (see Note F). In connection with the business combination and the existing terms of 3i’s subordinated debentures, the outstanding principal amount and all accrued and unpaid interest was paid to the debenture holders. In addition, the debenture holders exercised the detachable warrants and acquired 776,789 shares of 3i’s common stock in exchange for $5,179 and such shares of 3i’s common stock were subsequently exchanged for Common Shares of Biomet in the merger transaction.

On July 6, 2000, the Company announced an $.11 per share cash dividend ($.16 per share pre-split), payable July 17, 2000, to shareholders of record on July 10, 2000, and a three-for-two stock split payable August 8, 2000 to shareholders of record on July 18, 2000. All shares and all per share data has been adjusted to give retroactive effect to the stock split.
## NOTE I: SHAREHOLDERS’ EQUITY AND EARNINGS PER SHARE, CONCLUDED.

In December 1999, the Board of Directors of the Company adopted a new Shareholder Rights Plan (the “Plan”) to replace a 1989 rights plan that expired on December 2, 1999. Under the Plan, rights have attached to the outstanding common shares at the rate of one right for each share held by shareholders of record at the close of business on December 28, 1999. The rights will become exercisable only if a person or group of affiliated persons (an “Acquiring Person”) acquires 15% or more of the Company’s common shares or announces a tender offer or exchange offer that would result in the acquisition of 30% or more of the outstanding common shares. At that time, the rights may be redeemed at the election of the Board of Directors of the Company. If not redeemed, then prior to the acquisition by the Acquiring Person of 50% or more of the outstanding common shares of the Company, the Company may exchange the rights (other than rights owned by the Acquiring Person, which would have become void) for common shares (or other securities) of the Company on a one-for-one basis. If not exchanged, the rights may be exercised and the holders may acquire preferred share units or common shares of the Company having a value of two times the exercise price of $117.00. Each preferred share unit carries the same voting rights as one common share. If the Acquiring Person engages in a merger or other business combination with the Company, the rights would entitle the holders to acquire shares of the Acquiring Person having a market value equal to twice the exercise price of the rights. The Plan will expire in December 2009. The Plan is intended to protect the interests of the Company's shareholders against certain coercive tactics sometimes employed in takeover attempts.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Numerator:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$173,771</td>
<td>$125,026</td>
<td>$127,859</td>
</tr>
<tr>
<td>Less: Preferred stock dividends</td>
<td>81</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td><strong>Numerator for basic earnings per share – income available to common shareholders</strong></td>
<td>173,690</td>
<td>124,876</td>
<td>127,709</td>
</tr>
</tbody>
</table>

| Effect of dilutive securities: |        |        |        |
| Dividend on convertible preferred securities | 81 | 150 | 150 |
| Numerator for diluted earnings per share – income available to common shareholders after assumed conversions | $173,771 | $125,026 | $127,859 |

| **Denominator:**   |        |        |        |
| Denominator for basic earnings per share – weighted average shares | 176,196 | 174,441 | 173,553 |

| Effect of dilutive securities: |        |        |        |
| Warrants | 239 | 239 | 239 |
| Convertible preferred securities | 358 | 358 | 358 |
| Stock options | 1,368 | 2,172 | 2,270 |
| **Dilutive potential common shares** | 1,965 | 2,769 | 2,867 |
| **Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions** | 178,161 | 177,210 | 176,420 |

| Earnings per share – basic | $.99 | $.72 | $.74 |
| Earnings per share – diluted | .98 | .71 | .73 |
NOTE J: INCOME TAXES.

The components of income before income taxes are as follows:
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States operations</td>
<td>$260,107</td>
<td>$181,224</td>
<td>$187,743</td>
</tr>
<tr>
<td>Foreign operations</td>
<td>20,585</td>
<td>18,577</td>
<td>21,318</td>
</tr>
<tr>
<td>Total</td>
<td>$280,692</td>
<td>$199,801</td>
<td>$209,061</td>
</tr>
</tbody>
</table>

The provision for income taxes is summarized as follows:
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>$88,996</td>
<td>$55,174</td>
<td>$49,369</td>
</tr>
<tr>
<td>State, including Puerto Rico</td>
<td>13,622</td>
<td>12,168</td>
<td>13,636</td>
</tr>
<tr>
<td>Foreign</td>
<td>6,157</td>
<td>3,298</td>
<td>8,485</td>
</tr>
<tr>
<td>Total</td>
<td>108,775</td>
<td>70,640</td>
<td>71,490</td>
</tr>
<tr>
<td>Deferred:</td>
<td>(9,037)</td>
<td>(3,323)</td>
<td>9,568</td>
</tr>
<tr>
<td>Total</td>
<td>$99,738</td>
<td>$67,317</td>
<td>$80,058</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td></td>
<td>35.5%</td>
<td>33.7%</td>
</tr>
</tbody>
</table>

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. statutory income tax rate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Add (deduct):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State taxes, less effect of federal reduction</td>
<td>2.9</td>
<td>3.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Foreign income taxes at rates different from the U.S. statutory rate</td>
<td>(.8)</td>
<td>(2.3)</td>
<td>.3</td>
</tr>
<tr>
<td>Tax benefit relating to operations in Puerto Rico</td>
<td>(.3)</td>
<td>(.6)</td>
<td>(1.3)</td>
</tr>
<tr>
<td>Tax credits:</td>
<td>(.4)</td>
<td>(.7)</td>
<td>(.4)</td>
</tr>
<tr>
<td>Earnings of Foreign Sales Corporation</td>
<td>(.5)</td>
<td>(.9)</td>
<td>(.6)</td>
</tr>
<tr>
<td>Financial accounting basis of net assets of acquired companies different than tax basis</td>
<td>(.1)</td>
<td>(.1)</td>
<td>2.0</td>
</tr>
<tr>
<td>Other:</td>
<td>(.5)</td>
<td>1</td>
<td>.3</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td></td>
<td>35.5%</td>
<td>33.7%</td>
</tr>
</tbody>
</table>

The components of the net deferred tax asset and liability at May 31, 2000 and 1999 are as follows:
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current deferred tax asset:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts and notes receivable</td>
<td>$8,063</td>
<td>$5,669</td>
</tr>
<tr>
<td>Inventories</td>
<td>14,499</td>
<td>9,965</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>3,249</td>
<td>5,869</td>
</tr>
<tr>
<td>Current deferred tax asset</td>
<td>$25,811</td>
<td>$21,503</td>
</tr>
<tr>
<td>Long-term deferred tax (liability):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>$(4,166)</td>
<td>$(2,834)</td>
</tr>
<tr>
<td>Financial accounting basis of net assets of acquired companies different than tax basis</td>
<td>(4,521)</td>
<td>(4,883)</td>
</tr>
<tr>
<td>Other</td>
<td>3,301</td>
<td>(2,398)</td>
</tr>
<tr>
<td>Long-term deferred tax liability</td>
<td>$(5,386)</td>
<td>$(10,115)</td>
</tr>
</tbody>
</table>

The components of the net deferred tax asset and liability at May 31, 2000 and 1999 are as follows:
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States operations</td>
<td>$260,107</td>
<td>$181,224</td>
<td>$187,743</td>
</tr>
<tr>
<td>Foreign operations</td>
<td>20,585</td>
<td>18,577</td>
<td>21,318</td>
</tr>
<tr>
<td>Total</td>
<td>$280,692</td>
<td>$199,801</td>
<td>$209,061</td>
</tr>
</tbody>
</table>

The provision for income taxes is summarized as follows:
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>$88,996</td>
<td>$55,174</td>
<td>$49,369</td>
</tr>
<tr>
<td>State, including Puerto Rico</td>
<td>13,622</td>
<td>12,168</td>
<td>13,636</td>
</tr>
<tr>
<td>Foreign</td>
<td>6,157</td>
<td>3,298</td>
<td>8,485</td>
</tr>
<tr>
<td>Total</td>
<td>108,775</td>
<td>70,640</td>
<td>71,490</td>
</tr>
<tr>
<td>Deferred:</td>
<td>(9,037)</td>
<td>(3,323)</td>
<td>9,568</td>
</tr>
<tr>
<td>Total</td>
<td>$99,738</td>
<td>$67,317</td>
<td>$80,058</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td></td>
<td>35.5%</td>
<td>33.7%</td>
</tr>
</tbody>
</table>

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. statutory income tax rate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Add (deduct):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State taxes, less effect of federal reduction</td>
<td>2.9</td>
<td>3.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Foreign income taxes at rates different from the U.S. statutory rate</td>
<td>(.8)</td>
<td>(2.3)</td>
<td>.3</td>
</tr>
<tr>
<td>Tax benefit relating to operations in Puerto Rico</td>
<td>(.3)</td>
<td>(.6)</td>
<td>(1.3)</td>
</tr>
<tr>
<td>Tax credits:</td>
<td>(.4)</td>
<td>(.7)</td>
<td>(.4)</td>
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<td>33.7%</td>
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The components of the net deferred tax asset and liability at May 31, 2000 and 1999 are as follows:
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</tr>
<tr>
<td>Long-term deferred tax liability</td>
<td>$(5,386)</td>
<td>$(10,115)</td>
</tr>
</tbody>
</table>
NOTE K: SEGMENT DATA.

The Company has one reportable segment, musculoskeletal products, which includes the designing, manufacturing and marketing of reconstructive products, fixation devices, spinal products and other products. Other products consist primarily of Arthrotek’s arthroscopy products, AOA® softgoods products, general instruments and operating room supplies. The Company manages its business segments primarily on a geographic basis. These geographic segments are comprised of the United States, Europe and other. Other geographic segments include Canada, South America, Mexico, Japan and the Pacific Rim. The Company evaluates performance based on operating income of each geographic segment. Identifiable assets are those assets used exclusively in the operations of each geographic segment. Revenues attributable to each geographic area are based on location in which sale originated.

Net sales of musculoskeletal products by product category and information by geographic area are as follows:

<table>
<thead>
<tr>
<th>Product Category</th>
<th>United States</th>
<th>Europe</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconstructive products</td>
<td>$659,177</td>
<td>236,047</td>
<td>25,358</td>
<td>$920,582</td>
</tr>
<tr>
<td>Fixation devices</td>
<td>$594,403</td>
<td>215,913</td>
<td>17,586</td>
<td>$827,902</td>
</tr>
<tr>
<td>Spinal products</td>
<td>$145,841</td>
<td>34,841</td>
<td>2,276</td>
<td>$185,902</td>
</tr>
<tr>
<td>Other products</td>
<td>$159,716</td>
<td>22,910</td>
<td>3,276</td>
<td>$185,902</td>
</tr>
<tr>
<td>Operating income</td>
<td>$224,385</td>
<td>159,716</td>
<td>3,334</td>
<td>$263,674</td>
</tr>
<tr>
<td>Long-lived assets</td>
<td>$129,978</td>
<td>121,350</td>
<td>5,635</td>
<td>$256,963</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>2000</th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>$580,239</td>
<td>$521,365</td>
<td>$444,228</td>
</tr>
<tr>
<td>Europe</td>
<td>180,336</td>
<td>162,825</td>
<td>144,853</td>
</tr>
<tr>
<td>Other</td>
<td>54,119</td>
<td>45,125</td>
<td>35,902</td>
</tr>
<tr>
<td></td>
<td>$105,888</td>
<td>98,587</td>
<td>81,167</td>
</tr>
<tr>
<td></td>
<td>$920,582</td>
<td>$827,902</td>
<td>$706,150</td>
</tr>
</tbody>
</table>

Net sales to customers:

- United States $659,177
- Europe 236,047
- Other 25,358

Operating income:

- United States $224,385
- Europe 34,841
- Other 4,448

Long-lived assets:

- United States $129,978
- Europe 121,350
- Other 5,635

Note: The World Health Organization states that hip fractures could rise to 6.3 million per year by 2050.

NOTE L: COMMITMENTS AND CONTINGENCIES.

BioMer C.V. Put Option – Pursuant to the terms of the Joint Venture Agreement with Merck KGaA (see Note C), the Company granted Merck KGaA a put option whereby Merck KGaA has the right to elect to require the Company to purchase all, but not less than all, of Merck KGaA’s interest in BioMer C.V. Merck KGaA may exercise the put option by giving notice to the Company at any time during (a) the period beginning on May 1, 2002 and ending on May 10, 2008, or (b) a period of 180 days following receipt by Merck KGaA of notice from the Company that “a change of control” of the Company (as defined in the Joint Venture Agreement) has occurred prior to May 1, 2023. The put exercise price, which is payable in cash, is the greater of (i) a formula value based on earnings of BioMer C.V. and multiples, as defined in the Joint Venture Agreement, or (ii) the net book value of all the assets of BioMer C.V. less all liabilities of BioMer C.V. multiplied by Merck KGaA’s ownership percentage.

Medical Insurance Plan — The Company maintains a self-insurance program for covered medical expenses for all Team Members within the continental U.S. The Company is liable for claims up to $125,000 per insured annually. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and a management-determined estimated liability for claims incurred but not reported.
NOTE L: COMMITMENTS AND CONTINGENCIES, CONCLUDED.

Liability Insurance – Since 1989, the Company has self-insured against product liability claims, and at May 31, 2000 the Company’s self-insurance limits were $3,000,000 per occurrence and $5,000,000 aggregate per year. Liabilities in excess of these amounts are the responsibility of the Company’s insurance carrier. Self-insurance costs are accrued based on reserves set in consultation with the insurance carrier for reported claims and a management-determined estimated liability for claims incurred but not reported. Based on historical experience, management does not anticipate that incurred but unreported claims would have a material impact on the Company’s consolidated financial position.

Litigation – On August 27, 1999, the United States District Court for the Southern District of Florida (the “District Court”) entered a final judgment of $53,530 against the Company in the Raymond G. Tronzo (“Tronzo”) case. In January 1996, a jury returned a verdict in a patent infringement matter in favor of Tronzo which in August 1998 was subsequently reversed and vacated by the United States Court of Appeals for the Federal Circuit (the “Federal Circuit”). The Federal Circuit then remanded the case to the District Court for further consideration on the state law claims only. Tronzo has appealed the District Court’s final judgment with the Federal Circuit and the Federal Circuit heard oral arguments on July 7, 2000. Management expects a decision from the Federal Circuit within the next several months and believes the Company should continue to prevail in this case.

On June 30, 1999, the United States Court of Appeals for the Third Circuit (the “Third Circuit”) significantly reduced the judgment previously entered against the Company in an action brought by Orthofix SRL (“Orthofix”) against the Company and certain of its wholly owned subsidiaries. The litigation related to events surrounding the expiration of a distribution agreement under which the Company distributed Orthofix’s external fixation devices in the United States. The final judgment of $55 million, including estimated interest of $5.1 million, was accrued at May 31, 1999 (see Note A) and that amount plus $9.0 million related to the final determination of interest was paid during the year ended May 31, 2000.

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 establishes accruals for losses that are deemed to be probable and subject to reasonable estimate. Based on the advice of counsel to the Company 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 position or on its future business operations.

Other Commitments – As discussed in Note C, the Company has a commitment to fund certain research and development efforts of Selective Genetics, not to exceed $2.5 million annually and $22.5 million over a ten-year period ending April 2009.

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders’ equity and of cash flows present fairly, in all material respects, the financial position of Biomet, Inc. and its subsidiaries at May 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2000, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP
South Bend, Indiana
July 6, 2000
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 record holders of outstanding Common Shares as of May 31, 2000 was 7,026.

<table>
<thead>
<tr>
<th></th>
<th>1st Qtr.</th>
<th>2nd Qtr.</th>
<th>3rd Qtr.</th>
<th>4th Qtr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>$29 1/16</td>
<td>$25 7/16</td>
<td>$29 11/16</td>
<td>$26 5/16</td>
</tr>
<tr>
<td>Low</td>
<td>23 1/4</td>
<td>16 7/16</td>
<td>19 1/8</td>
<td>18 1/16</td>
</tr>
<tr>
<td>1999</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>22 1/4</td>
<td>25 11/16</td>
<td>26 1/16</td>
<td>30 1/2</td>
</tr>
<tr>
<td>Low</td>
<td>18 19/16</td>
<td>17 1/16</td>
<td>21 1/16</td>
<td>23 7/16</td>
</tr>
<tr>
<td>1998</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>15 1/2</td>
<td>17 1/16</td>
<td>20 1/16</td>
<td>22 7/16</td>
</tr>
<tr>
<td>Low</td>
<td>11 3/8</td>
<td>13 1/2</td>
<td>15 1/2</td>
<td>18 7/16</td>
</tr>
</tbody>
</table>

The Company paid cash dividends of $.09, $.08 and $.07 per share for the fiscal years ended May 31, 2000, 1999 and 1998, respectively.

The Common Shares of Biomet, Inc. are traded on the Nasdaq Stock Market (Trading Symbol: BMET). The following firms currently make a market in Biomet Common Shares:

- ABN AMRO Securities (USA), Inc.
- Archipelago, L.L.C.
- Attain-ECN
- Bank of America Securities
- Bear, Stearns & Co. Inc.
- Bernard L. Madoff
- B-Trade Services LLC
- Cantor, Fitzgerald & Co.
- Chase H&Q/Div of Chase Secs.
- Credit Suisse First Boston Corp.
- Dain Rauscher Inc.
- Dean Witter Reynolds Inc.
- Donaldson, Lufkin & Jenrette
- Fidelity Capital Markets
- First Union Capital Markets
- Fleet Trading/Div Fleet Secs.
- FleetBoston Robertson Stephens, Inc.
- Gaines Berland, Inc.

- Gerald Klauder Mattison & Co.
- Goldman, Sachs & Co.
- Herzog, Heine, Geduld, Inc.
- ING Barrings Furman Selz, LLC
- Instinet Corporation
- Island System Corporation
- J.P. Morgan Securities Inc.
- Jeffries & Company Inc.
- Josephthal & Co.
- Knight Securities L.P.
- Lehman Brothers Inc.
- MARKETXT, Inc.
- Merrill Lynch, Pierce, Fenner
- Midwest Stock Exchange
- Morgan Keegan & Company
- Morgan Stanley & Co., Inc.
- NatCity Investments Inc.
- Needham & Company, Inc.
- PaineWebber Inc.
- Penson Financial Services
- Pershing Trading Company
- Prudential Securities Inc.
- Robert W. Baird & Co. Inc.
- Salomon Smith Barney Inc.
- Schwab Capital Markets
- SG Cowen Securities
- Sherwood Securities Group
- Southwest Securities, Inc.
- Spear, Leeds & Kellogg
- The Brass Utility, L.L.C.
- Tucker Anthony Cleary Gull
- Tucker Anthony Incorporated
- U.S. Bancorp Piper Jaffray
- Warburg Dillon Read, LLC
- Weeden and Co. Inc.
- William Blair & Co.

FORWARD-LOOKING STATEMENTS

This report contains certain statements that are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. Those 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 population on demand for the Company’s products, the Company’s intent and ability to expand its operations, assumptions and estimates regarding the size and growth of certain market segments, the Company’s ability and intent to expand into key international markets, the 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 its business, the Company’s continued investment in new products and technologies, the ultimate marketability of products currently being developed, the Company’s ability to continue to introduce high-margin products and the Company’s ability to take advantage of technological advancements. 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.
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Ontario, CA 91761  
Phone 909.390.0356  
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Fax 48.22.639.83.51

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Greece  
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