

## Message to Our Shareholders

### FIRST QUARTER REPORT

We are pleased to report the results for the first quarter of fiscal year 2002. Sales in the first quarter increased 18% to \$272,022,000 compared to \$231,133,000 for the same period last fiscal year. Net sales increased 21% during the quarter, excluding the impact of foreign currency and discontinued products which reduced first quarter sales by \$4.8 million and \$2.8 million, respectively. Gross profit for the quarter increased 19% to \$194,630,000 from \$162,966,000 reported for the first quarter of last fiscal year. Operating income increased 16% from \$70,168,000 to \$81,646,000; net income increased 16% to \$56,013,000 from \$48,427,000; and diluted earnings per share increased 17% to \$.21 from \$.18.

The discontinued products noted above were distributed products through our Biomet-Merck joint venture. Approximately \$800,000 is associated with spinal products in Belgium and \$2 million represents general surgery products in Portugal.

The establishment of a direct sales operation in Japan continues to progress with the receipt of additional approvals for distribution of key Biomet products. As a result of the reduction in product purchases by Biomet's former dealer organization in Japan, first quarter revenues were negatively affected by approximately \$1.7 million. However, we believe that Biomet's long-term prospects in Japan will improve as a result of our initiatives.

Sales in the United States increased 26% during the first quarter to \$199,202,000 from \$157,614,000 due to strong, balanced growth throughout Biomet's broad line of musculoskeletal products. Excluding the impact of foreign currency exchange and discontinued products, international sales increased 11% to \$72,820,000.

Unless otherwise noted, all of the following percentages are quoted on a constant -currency basis and adjusted for discontinued products as previously discussed. However, the following percentages do not include any adjustment for the reduction in revenues associated with Biomet's sales in Japan.

Reconstructive device sales increased 16% in the first quarter of 2002 to \$161,172,000. The M2a Metal-on-Metal Hip Articulation System, the minimally invasive Repicci II Unicondylar Knee, the Ascent Primary and Revision Knee Systems, as well as Palacos Bone Cement and the Optivac Vacuum Mixing System have experienced strong market penetration, significantly contributing to the Company's reconstructive device revenue growth. Dental reconstructive products also experienced strong growth in the first quarter with a 21% increase in the United States and a 17% growth rate worldwide. The OSSEOTITE Dental Reconstructive Implant System continues to be well accepted by 3i's customers and is probably the single most successful dental implant in the industry with a reported one million OSSEOTITE systems implanted since its introduction in late 1995.

Fixation sales experienced 16% growth during the first quarter to \$53,646,000. Sales in the electrical stimulation device and craniomaxillofacial market segments led the increase in fixation sales. Electrical stimulation sales increased 27% during the quarter. Strong sales of the EBI Bone Healing System Model 1026, the non-invasive Bioelectron OrthoPak bone healing device, and EBI's OsteoGen implantable electrical stimulation device continued to experience strong market acceptance. Mimix Bone Substitute Material contributed to the craniomaxillofacial market segment, which experienced revenue increases of 13% in the United States and 10% worldwide. During the quarter, internal fixation sales increased 9% worldwide and 6% in the United States, while external fixation sales increased 6% in the United States and 4% worldwide.

Spinal product sales increased 107% to \$27,459,000 during the quarter. Spinal sales in the United States increased 108% during the quarter, with spinal stimulation device sales recording a 135% increase and spinal implant sales increasing 58%. EBI's SpF spinal fusion stimulation device and the Bioelectron SpinalPak fusion stimulation system provide clinicians with a choice between implantable and non-invasive spinal fusion treatment. Key products contributing to EBI's growth in the spinal market are the Omega 21 Spinal Fixation System, the SpineLink Fixation System and the VueLock Anterior Cervical Plate System. During the first quarter of 2002, EBI's OsteoStim synthetic bone substitute granules were approved by the FDA for filling bony defects. OsteoStim will be introduced to EBI's spinal surgeon customer base during the second quarter of 2002 at the North American Spine Society Meeting.

Other product sales increased 14% to \$29,745,000 during the first quarter. Arthroscopy product sales increased 41% in the United States and 40% worldwide. Arthrotek's growth continues to be led by procedure-specific arthroscopy products, primarily the Bone Mulch Screw/WasherLoc Device product combination; the LactoSorb line of resorbable arthroscopic products; and the recent addition of the CurvTek Bone Tunneling System. EBI's AOA softgoods and bracing sales increased 16% in the United States principally led by the Support-On-Site ("S.O.S.") Stock and Bill Program and new product introductions during the quarter.

During the first quarter of 2002, Biomet and Organogenesis reached a product development and supply agreement. Organogenesis owns intellectual property regarding the methods of processing a natural extracellular matrix. The intent is to investigate the application of this technology in the areas of ligament, tendon, and cartilage repair, with possible application in periodontal bone or tissue regeneration.

Biomet held its Annual Meeting of Shareholders on September 29, 2001 at its headquarters in Warsaw, Indiana. Tours of Biomet's main facility were provided prior to the meeting. The Company's shareholders approved the election of M. Ray Harroff, Jerry L. Miller, Charles E. Niemier, and Prof. Dr. Bernhard Scheuble to the Board of Directors for a three-year term expiring in 2004. Following the business portion of the meeting, President and CEO Dane Miller presented a current overview of the Company. John M. Cuckler, M.D. gave an outstanding presentation on the M2a Taper Metal-on-Metal Articulation System, as well as his working relationship with Biomet and the service provided to him through Biomet's local distributorship.

We are extremely disheartened and saddened by the tragedy of September 11th in New York City and Washington, D.C. In order to assist the victims, Team Biomet donated trauma devices, which were shipped that same day. Our heartfelt condolences are extended to the families and friends of the victims of this tragedy.

We would like to express our appreciation to our shareholders for your continued support. The first quarter of 2002 represents Biomet's 17th consecutive quarter of 15% or greater earnings growth. The Company's success is bolstered by its broad product offerings addressing multiple musculoskeletal market segments, new product introductions and approvals, and expansion of our worldwide salesforces, which now exceed 1,500 representatives. Biomet is well positioned to continue to gain market share in the \$12 billion worldwide musculoskeletal products market by **connecting** people, ideas, technology, products, and service. We look forward to another great year!

Respectfully,



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



Niles L. Noblitt  
Chairman of the Board

**Consolidated Statements of Income**

for the three months ended August 31, 2001 and 2000  
(in thousands, except per share amounts)

	2001	2000
Net sales	<b>\$272,022</b>	\$231,133
Cost of sales	<b>77,392</b>	68,167
Gross profit	<b>194,630</b>	162,966
Selling, general and administrative expenses	<b>101,316</b>	82,934
Research and development expense	<b>11,668</b>	9,864
Operating income	<b>81,646</b>	70,168
Other income, net	<b>4,564</b>	5,470
Income before income taxes and minority interest	<b>86,210</b>	75,638
Provision for income taxes	<b>29,269</b>	25,950
Income before minority interest	<b>56,941</b>	49,688
Minority interest	<b>928</b>	1,261
Net Income	<b>\$56,013</b>	\$48,427
Earnings per share:		
Basic	<b>\$.21</b>	\$.18
Diluted	<b>\$.21</b>	\$.18
Shares used in the computation of earnings per share:		
Basic	<b>269,459</b>	266,955
Diluted	<b>272,668</b>	269,862
Cash dividends per common share	<b>\$.09</b>	\$.07

## Sales Analysis

for the three months ended August 31, 2001 and 2000 (in thousands)

<b>Domestic/Foreign Sales</b>	<b>2001</b>	2000
U.S. sales	<b>\$199,202</b>	\$157,614
Foreign sales	<b>72,820</b>	72,643
<b>Segment Sales</b>		
Reconstructive	<b>\$161,172</b>	\$142,092
Fixation	<b>53,646</b>	46,531
Spinal products	<b>27,459</b>	14,109
Other	<b>29,745</b>	28,401

## Market Value of Common Shares

The following table shows the quarterly range of high and low sale prices for the Company's Common Shares as reported by Nasdaq Stock Market (Biomet's fiscal year commences on June 1 and ends on May 31.) Stock Symbol: BMET. The amount reflects inter-dealer prices, without retail mark-up, mark-down or commission. Record holders of outstanding Common Shares - August 31, 2001 - 6,530.

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
<b>2002</b>				
High	32.79			
Low	19.00			
2001				
High	23.50	26.92	27.83	30.67
Low	14.97	19.08	20.46	23.67
2000				
High	19.39	16.78	17.86	17.33
Low	15.50	10.94	13.25	12.06

**Consolidated Balance Sheets**

at August 31, 2001 and May 31, 2000

(in thousands)

**Assets**

	8/31/2001	5/31/2001
Current assets:		
Cash and cash equivalents	\$ 254,784	\$ 235,091
Investments	39,629	52,627
Accounts and notes receivable, net	319,139	324,848
Inventories	291,283	277,601
Deferred income taxes	50,046	48,982
Prepaid expenses and other	<u>25,780</u>	<u>29,230</u>
Total current assets	<u>980,661</u>	<u>968,379</u>
Property, plant and equipment, at cost	336,199	325,890
Less, Accumulated depreciation	<u>147,031</u>	<u>140,139</u>
Property, plant and equipment, net	<u>189,168</u>	<u>185,751</u>
Investments	190,925	175,430
Intangible assets, net	8,204	8,848
Excess acquisition costs over fair value of acquired net assets, net	132,299	134,835
Other assets	<u>17,456</u>	<u>16,068</u>
Total assets	<u>\$1,518,713</u>	<u>\$1,489,311</u>

**Liabilities and Shareholders' Equity**

	8/31/2001	5/31/2001
Current liabilities:		
Short-term borrowings	\$ 60,111	\$ 62,734
Accounts payable	21,954	21,008
Accrued income taxes	36,145	31,085
Accrued wages and commissions	28,395	33,030
Accrued litigation	26,100	26,100
Other accrued expenses	<u>60,040</u>	<u>67,865</u>
Total current liabilities	232,745	241,822
Long-term liabilities:		
Deferred federal income taxes	6,354	5,783
Other liabilities	<u>403</u>	<u>423</u>
Total liabilities	<u>239,502</u>	<u>248,028</u>
Minority interest	<u>96,025</u>	<u>95,097</u>
Contingencies (Note 7)		
Shareholders' equity:		
Common shares	113,774	108,918
Additional paid-in capital	48,732	48,732
Retained earnings	1,076,309	1,044,564
Accumulated other comprehensive loss	<u>(55,629)</u>	<u>(56,028)</u>
Total shareholders' equity	<u>1,183,186</u>	<u>1,146,186</u>
Total liabilities and shareholders' equity	<u>\$1,518,713</u>	<u>\$1,489,311</u>

**Consolidated Statements of Cash Flow**for the three months ended August 31, 2001 and 2000  
(in thousands)

	2001	2000
Cash flows from (used in) investing activities:		
Proceeds from sales and maturities of investments	38,980	24,645
Purchases of investments	(39,566)	(20,512)
Capital expenditures	(11,960)	(8,621)
Other	<u>(1,011)</u>	<u>(839)</u>
Net cash used in investing activities	<u>(13,557)</u>	<u>(5,327)</u>
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings, net	(2,098)	4,016
Issuance of common shares	4,856	7,184
Cash dividends	<u>(24,268)</u>	<u>(18,993)</u>
Net cash used in financing activities	<u>(21,510)</u>	<u>(7,793)</u>
Effect of exchange rate changes on cash	<u>940</u>	<u>754</u>
Increase in cash and cash equivalents	19,693	40,663
Cash and cash equivalents, beginning of year	<u>235,091</u>	<u>213,606</u>
Cash and cash equivalents, end of period	<u>\$254,784</u>	<u>\$254,269</u>

## Quarterly Graphs

for the periods ended August 31,

