

## ***Message to our Shareholders***

Biomet is pleased to announce record sales and earnings results for the first quarter of fiscal year 2006. The following discussion will focus on the Company's results on an adjusted basis. Adjusted results for last year, which are non-GAAP financial measures, exclude amortization of inventory step-up and write-off of in-process research and development from the March 2004 acquisition of Merck KGaA's interest in the Biomet Merck joint venture and the June 2004 acquisition of Interpore International, Inc.

Net sales increased 11% during the first quarter of fiscal year 2006 to \$484.9 million. Gross profit increased 10% to \$350.4 million, representing 72.3% of sales. SG&A expenses increased 11% to \$178.2 million, representing 36.7% of sales. R&D expenses increased 13% to \$20.8 million, or 4.3% of sales. Operating income increased 8% to \$151.4 million, with operating margins at 31.2% of sales. Net income increased 10% to \$100.3 million, while diluted earnings per share increased 11% to \$0.40 per share. We continue to invest in sales and marketing initiatives in order to solidify our long-term growth prospects in the musculoskeletal products marketplace.

Net sales increased 10% worldwide, excluding the impact of foreign currency, which increased first quarter sales by \$3.7 million. International sales increased 16% on a constant currency basis, while domestic revenues increased 7% during the first quarter.

During the first quarter of fiscal year 2006, reconstructive device sales increased 15% worldwide to \$323.8 million. Knee sales increased 17% worldwide and 16% in the United States during the quarter against last year's industry-leading first quarter growth rates of 23% worldwide and 27% in the United States. First quarter knee sales growth was driven by the continued rollout of the Vanguard Complete Knee System with Microplasty Minimally Invasive Instruments and the Oxford Unicompartmental Knee System.

The success of the Vanguard Complete Knee System is attributable to its advanced design features, including its full interchangeability throughout nine femoral and tibial sizes, making it the most comprehensive total knee system currently available. Additionally, the Vanguard System allows for up to 145 degrees of flexion, while sacrificing less bone than competitive high flex systems. The first Vanguard Revision training course in the United States was completed during the first quarter and the introduction of the Vanguard Revision components will continue during the second quarter on a limited basis.

The Vanguard System has also benefited from the strong demand for Biomet's market-leading Microplasty Minimally Invasive Knee Instruments, which were the first minimally invasive total knee instruments on the market. During the past nine fiscal quarters, approximately 1,100 sets of Microplasty Total Knee Instruments have been released, with 150 additional sets scheduled for rollout during the second quarter of fiscal year 2006. More than 1,050 domestic surgeons have been trained on Microplasty Total Knee Instruments during the past nine fiscal quarters, with an additional 100 surgeons scheduled for training during the second quarter. Additionally, Biomet will initiate the general rollout of the Vanguard Premier Instruments during the second quarter. The Premier Instruments are designed for implantation of the Vanguard System utilizing more conventional open procedures.

The Oxford Unicompartmental Knee System continued to experience strong market demand during the second quarter, providing surgeons and their patients with the only free-floating meniscal bearing unicompartmental knee approved for sale in the United States. Approximately 475 surgeons completed Oxford-specific training in the United States during the past four quarters, with 150 domestic surgeons scheduled for training during the second quarter. The Oxford System is a remarkably successful conservative treatment option, with long-term clinical results outside the United States that demonstrate 98% success at 10 years and a 95% success rate at 15 years.

Strong knee sales for Biomet Europe resulted from increased demand for numerous total knee systems, including the AGC, Maxim, and Vanguard Systems, as well as the mobile-bearing ROCC (**RO**tating **C**oncave **C**onvex) Knee. The AGC knee has been previously cited by the Swedish Knee Study as one of the best-performing knee systems on the market and the Maxim Knee System continues to be Biomet's best-selling knee. Additionally, the Oxford Unicompartmental Knee System continued to contribute to knee sales growth for Biomet Europe during the first quarter.

During the first quarter, hip sales increased 12% worldwide and 7% in the United States. Metal-on-metal articulation sales increased 41% in the United States during the first quarter. The M<sup>2</sup>a-Magnum continued to experience strong market demand during the first quarter and is currently our best-selling metal-on-metal system in the United States. The Magnum acetabular system provides improved joint stability and range of motion due to its large head design, more closely resembling the natural anatomy. During the first quarter, new Magnum instrument sets were released, with additional sets scheduled for release during the second quarter, providing an improved design over the original Magnum instrumentation.

The Taperloc Hip Stem, with 20% domestic sales growth during the first quarter, continues to be the surgeons' choice for procedures utilizing Biomet's Microplasty Minimally Invasive Hip Instrumentation. During the past nine fiscal quarters, approximately 1,175 domestic surgeons completed Microplasty Hip training. The Company's Microplasty Hip Program continued to expand during the first quarter with the completion of the design for Biomet's anterior supine instrumentation. A train-the-trainer lab has been scheduled on the East coast during the second quarter and a third quarter webcast of the anterior supine approach utilizing Biomet's Microplasty Instruments has been planned.

Additionally, the Company is introducing new hip stems for the Microplasty Minimally Invasive Program. Clinical evaluations of the Balance Microplasty and the Taperloc Microplasty Hip Systems, Biomet's first two hip implants designed specifically for the Microplasty Program, began during the first quarter. Following the evaluations, the Company plans to initiate the launch of these systems during the fourth quarter of fiscal year 2006 or the first quarter of fiscal year 2007.

Biomet's ArComXL second-generation highly-crosslinked polyethylene, which was introduced during the fourth quarter, represented 25% of the Company's metal/poly articulation units in the United States during the first quarter and achieved a 30% penetration level for the month of August. ArComXL polyethylene exhibits a 47 - 64% decrease in volumetric wear rate over standard ArCom in laboratory studies, as well as a 30% increase in ultimate tensile strength, similar wear-particle shape and size, and no measurable oxidation under accelerated aging. Biomet received regulatory clearance

during the first quarter to market ArComXL polyethylene liners with Biolox delta ceramic heads, providing another alternative bearing choice for surgeons.

As previously announced, Biomet received an approvable letter from the U.S. Food and Drug Administration during early September for the Company's ceramic-on-ceramic submission, the C<sup>2</sup>a-Taper Acetabular System. Implants and instruments are ready for distribution upon final regulatory approval, which Biomet expects to be granted during the third fiscal quarter.

The clinical evaluation of the Medallion Modular CT (Collared Taper) Revision Hip System is ongoing and Biomet is planning a limited rollout of the modular calcar version to the designers during the second half of fiscal year 2006. The Medallion System is a third-generation revision system, which offers surgeons significant intraoperative versatility due to the high level of system modularity.

Extremity sales increased 13% worldwide and 8% in the United States during the first quarter. Extremity products exhibiting strong growth during the first quarter were the Comprehensive Fracture Stem, the Mosaic Humeral Replacement System and the Copeland Humeral Resurfacing Head. The Comprehensive Fracture Stem is indicated for complex shoulder fractures and can be either cemented or press-fit. The Mosaic System is a modular shoulder system designed for revision, salvage and oncology procedures. The Copeland shoulder is a bone-conserving resurfacing system for patients in the early stage of degenerative joint disease.

Extremity products expected to drive second quarter growth are the Bio-Modular Shoulder System, the Comprehensive Fracture Stem, the Copeland Humeral Resurfacing Head, the Discovery Elbow and the ExploR Modular Radial Head Hemi-Elbow. The ExploR Hemi-Elbow is a two-piece device comprised of a tapered stem, along with a head that is designed to articulate with the patient's natural bone. The ExploR was introduced on a limited basis in the United States during the first quarter, with the initiation of the general rollout planned for the second quarter. New extremity products include the short stem Bio-Modular MI, a minimally-invasive version of the Bio-Modular Shoulder, which continues to gain market acceptance and the Maestro Total Wrist, which is scheduled for a limited rollout during the second quarter.

Sales of bone cements and accessories increased 16% worldwide and 9% in the United States during the first quarter. These growth rates were against tough comparisons from last year's first quarter growth rates of 29% worldwide and 71% in the United States. As previously announced, Biomet intends to continue to distribute Palacos and Palacos G bone cements in the United States through the end of calendar year 2005. The Company received regulatory clearance for Biomet's internally developed bone cements, Cobalt and Cobalt G, during the first quarter of fiscal year 2006 and a second quarter rollout is planned. These products are particularly well suited for use in Biomet's Microplasty Programs due to the cements' high optical contrast and excellent handling characteristics.

Biomet also received regulatory clearance during the first quarter for StageOne Disposable Spacer Molds, which are scheduled for a second quarter rollout. Utilized in stage one of a two-stage knee revision procedure, the spacer molds offer surgeons an advantage over traditional pre-made and hand-made cement spacers. Biomet also plans to submit a 510K to the U.S. Food and Drug Administration for StageOne Hip Spacers during the second quarter.

Dental reconstructive implant sales increased 15% worldwide and 14% in the United States during the first quarter. These growth rates were up against last year's first quarter growth rates of 25% worldwide and 24% in the United States. During the first quarter, 3i continued the launch of Provide, a series of new abutments expected to be more widely accepted by general dentists due to ease of use. A new line of drills and depth indicators for 3i's OSSEOTITE NT Implant System was introduced during the first quarter, as well. Additionally, 3i received regulatory clearance for the OSSEOTITE Prevail Implant during the first quarter, with a second quarter product launch planned. The OSSEOTITE Prevail is designed to help reduce crestal bone remodeling.

During the first quarter of fiscal year 2006, worldwide fixation sales increased 2% to \$64.2 million. Lorenz Surgical's craniomaxillofacial fixation sales increased 15% worldwide during the first quarter and increased 10% in the United States. Internal fixation sales increased 6% worldwide and in the United States during the first quarter. External fixation sales decreased 5% worldwide during the first quarter and decreased 11% in the United States. Sales of electrical stimulation products decreased 4% worldwide and decreased 2% in the United States during the first quarter.

A phased rollout of the Peritrochanteric Nail, which began at the end of the fourth quarter and continued during the first quarter, provided a positive impact on internal fixation sales. This system is used for hip fractures and features a unique single lag screw concept with multiple lag options for various fracture patterns.

During the second quarter, EBI will be releasing the OptiLock Periarticular Plating System, which consists of a variety of anatomically contoured plates for lower extremity fractures. The system is based on EBI's Spherelock technology, which allows surgeons to choose a locked or unlocked bone screw in any hole, offering ultimate intraoperative flexibility.

In addition, EBI introduced the implantable OsteoGen MINI Bone Growth Stimulator during the first quarter. The OsteoGen MINI features a slimmer, lower-profile design that is 43% smaller than the previous version, for increased placement options and enhanced patient comfort.

Spinal product sales increased 5% worldwide during the first quarter to \$55.3 million, while growth was flat in the United States. Sales of spinal implants and orthobiological products for the spine increased 14% worldwide during the quarter and increased 8% in the United States, while first quarter sales of spinal stimulation systems decreased 7% worldwide and in the United States.

A general introduction of the Synergy Polaris Spine System has been scheduled to take place during the second quarter. The Polaris features a low-profile 6.35 mm diameter titanium top-loading rod system for use in thoracolumbar posterior or anterior procedures. The Polaris helical flange screw is designed to eliminate cross threading. The Polaris System will complement the top-loading Array System, which offers a 5.5 mm diameter rod.

The launch was completed during the first quarter for the titanium version of the Ibex Spine System, a unique curved endplate-sparing device. The PEEK-OPTIMA version of the Ibex System, which is expected to experience greater demand than the titanium version, will be released during the second quarter.

The IbeX System is indicated for partial replacement of a diseased or fractured vertebral body in the thoracolumbar region of the spine.

During the first quarter, EBI launched the SpF MINI Implantable Spinal Fusion Stimulator. With the new low-profile design, the SpF MINI provides the same beneficial features for surgeon and patient as the OsteoGen MINI mentioned earlier.

"Other product" sales increased 4% worldwide to \$41.6 million during the first quarter and increased 3% in the United States. Sales of softgoods and bracing products decreased 7% worldwide and decreased 6% in the United States during the first quarter.

Arthroscopy sales increased 17% worldwide and 14% in the United States during the first quarter. Arthrotek products experiencing excellent growth rates during the first quarter include the EZ-Loc Femoral Fixation Device and the InnerVue Diagnostic Scope System, as well as LactoScrew Resorbable Suture Anchors and TiScrew Anchors for shoulder repair procedures. The InnerVue Scope System offers the ability to provide an immediate diagnosis in the clinician's office, with the potential to minimize recovery time and reduce medical expenses. The scope is currently being used to diagnose knee and shoulder conditions, with the possibility of diagnostic utilization in other joints.

We are pleased with the Company's sales performance during the first quarter of fiscal year 2006. The Company experienced accelerating worldwide constant currency growth in reconstructive products, internal fixation, craniomaxillofacial fixation and arthroscopy products. Additionally, we are pleased with the operational progress and new product line-up at our EBI subsidiary.

We look forward to the many new and exciting products and technologies to be introduced by the Company throughout fiscal year 2006. As we advance science to improve patients' lives, we are continually aware that innovation starts **here**.

Respectfully,



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



Niles L. Noblitt  
Chairman of the Board

## Market Value of Common Shares

**Fiscal Year 2006 1st Quarter - Quarter Ended August 31, 2005**

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, 2005 6,071.

2006				
High	39.11			
Low	33.64			
2005				
High	49.60	49.50	49.64	43.32
Low	39.69	43.13	40.53	34.90
2004				
High	30.95	36.25	41.25	41.67
Low	27.26	29.56	34.50	37.05

## Sales Analysis

	2005	2004
U.S. sales	\$317,326	\$296,304
Foreign sales	167,577	141,856
Reconstructive sales	\$323,815	\$282,482
Fixation sales	64,179	62,713
Spinal product sales	55,326	52,909
Other product sales	41,583	40,056

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

**BIOMET, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

for the three months ended August 31, 2005 and 2004  
(Unaudited, in thousands, except per share data)

	2005	2004
	----	----
Net sales	\$484,903	\$438,160
Cost of sales	134,495	125,972
	-----	-----
Gross profit	350,408	312,188
Selling, general and administrative expenses	178,182	160,460
Research and development expense	20,816	18,476
In-process research and development	--	26,020
	-----	-----
Operating income	151,410	107,232
Other income (expense), net	558	(728)
	-----	-----
Income before income taxes	151,968	106,504
Provision for income taxes	51,669	46,071
	-----	-----
Net income	\$100,299	\$ 60,433
	=====	=====
Earnings per share:		
Basic	\$.40	\$.24
	=====	=====
Diluted	\$.40	\$.24
	=====	=====
Shares used in the computation of earnings per share:		
Basic	249,582	253,856
	=====	=====
Diluted	250,656	255,950
	=====	=====
Cash dividends per common share	\$.25	\$.20
	=====	=====

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

**BIOMET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Net cash used in investing activities	(22,337)	(287,216)
	-----	-----
Cash flows from (used in) financing activities:		
Increase in short-term borrowings, net	6,823	201,770
Issuance of common shares	2,798	6,312
Cash dividends	(62,473)	(50,872)
Purchase of common shares	(35,447)	(64,985)
	-----	-----
Net cash from (used in) financing activities	(88,299)	92,225
	-----	-----
Effect of exchange rate changes on cash	(1,507)	(1,437)
	-----	-----
Decrease in cash and cash equivalents	19,687	(77,528)
Cash and cash equivalents, beginning of year	104,706	159,243
	-----	-----
Cash and cash equivalents, end of period	\$124,393	\$ 81,715
	=====	=====

**BIOMET, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**  
**at August 31, 2005 and May 31, 2005**  
(in thousands)

**ASSETS**

	August 31, 2005	May 31, 2005
	-----	-----
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 124,393	\$ 104,706
Investments	7,978	10,962
Accounts and notes receivable, net	455,821	479,745
Inventories	471,659	469,791
Deferred income taxes	73,607	72,732
Prepaid expenses and other	37,017	35,980
	-----	-----
Total current assets	1,170,475	1,173,916
	-----	-----
Property, plant and equipment, at cost	583,039	574,398
Less, Accumulated depreciation	256,219	251,511
	-----	-----
Property, plant and equipment, net	326,820	322,887
	-----	-----
Investments	61,252	61,406
Goodwill	432,255	435,621
Intangible assets, net	85,772	87,835
Other assets	15,830	14,912
	-----	-----
Total assets	\$2,092,404	\$2,096,577
	=====	=====

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

**BIOMET, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**  
**at August 31, 2005 and May 31, 2005**

(in thousands)

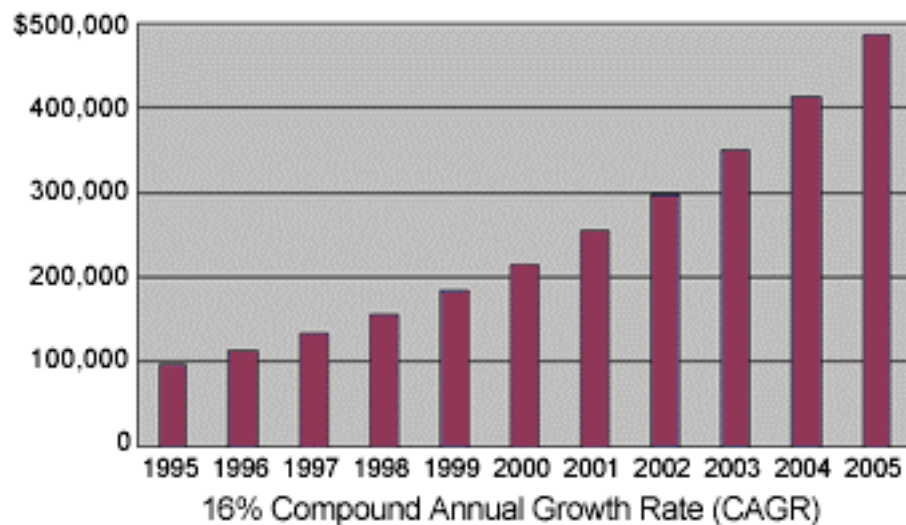
**LIABILITIES AND SHAREHOLDERS' EQUITY**

	August 31, 2005	May 31, 2005
	-----	-----
	(Unaudited)	
Current liabilities:		
Short-term borrowings	\$ 286,036	\$ 282,193
Accounts payable	55,067	57,021
Accrued income taxes	36,390	9,725
Accrued wages and commissions	53,450	62,171
Other accrued expenses	87,432	90,281
	-----	-----
Total current liabilities	518,375	501,391
Long-term liabilities:		
Deferred income taxes	29,819	31,255
	-----	-----
Total liabilities	548,194	532,646
	-----	-----
Contingencies		
Shareholders' equity:		
Common shares	190,235	188,162
Additional paid-in capital	67,760	67,613
Retained earnings	1,288,268	1,284,905
Accumulated other comprehensive income	(2,053)	23,251
	-----	-----
Total shareholders' equity	1,544,210	1,563,931
	-----	-----
Total liabilities and shareholders' equity	\$2,092,404	\$2,096,577
	=====	=====

Quarterly Graphs

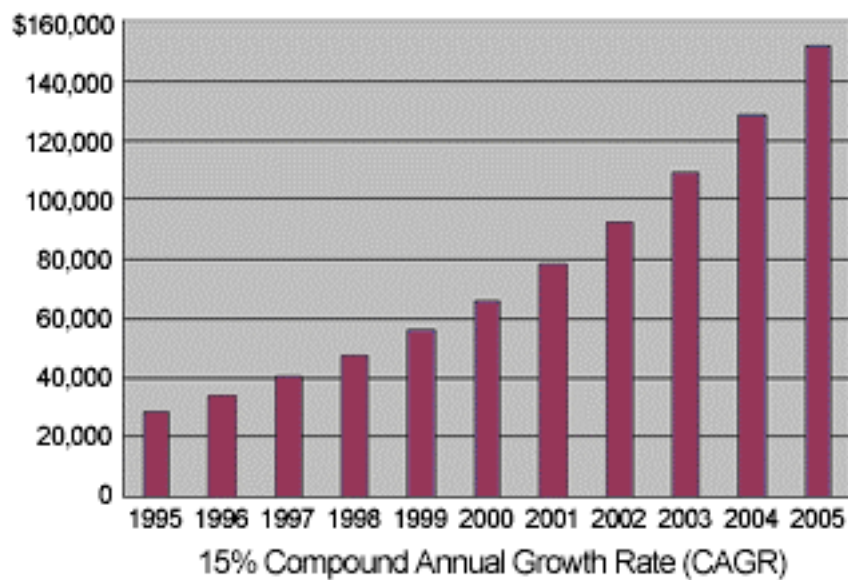
## Net Sales

(in Thousands)

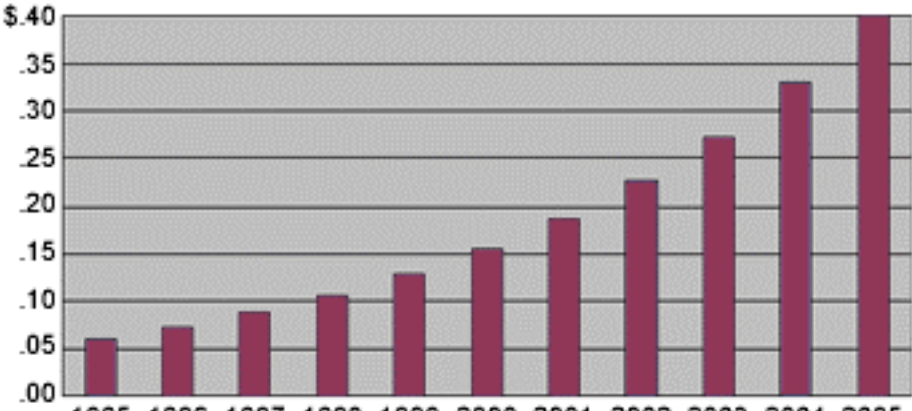


## Operating Income

(in Thousands)



# Diluted Earnings Per Share



15% Compound Annual Growth Rate (CAGR)