BIOMET INC
Form 10-K
August 12, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 31, 2004.

OR

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

For the transition period from_____to_____.

Commission file No. 0-12515.

[BIOMET INC LOGO]

(Exact name of registrant as specified in its charter)

INDIANA	35-1418342
(State of incorporation)	(IRS Employer Identification No.)
56 EAST BELL DRIVE, WARSAW, INDIANA	46582
(Address of principal executive offices)	(Zip Code)

(574) 267-6639
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

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

COMMON SHARES	RIGHTS TO PURCHASE COMMON SHARES
(Title of class)	(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes [X] No [ ]

The aggregate market value of the Common Shares held by non-affiliates of the registrant, based on the closing price of the Common Shares on November 28, 2003, as reported by The Nasdaq National Market, was approximately $8,355,197,828. As of July 21, 2004, there were 254,012,785 Common Shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

IDENTITY OF DOCUMENT	PARTS OF FORM 10-K INTO WHICH DOCUMENT IS INCORPORATED
Proxy Statement with respect to the 2004 Annual Meeting of Shareholders of the Registrant	Part III

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FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" within the meaning of federal securities laws. Those statements are often indicated by the use of words such as "will," "intend," "anticipate," "estimate," "expect," "plan" and similar expressions, and include, but are not limited to, statements related to the timing and number of planned new product introductions; the effect of anticipated changes in the size, health and activities of population on demand for the Company's products; 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 in key international markets; the timing and anticipated outcome of clinical studies; assumptions concerning anticipated product developments and emerging technologies; the future availability of raw materials; the anticipated adequacy of the Company's capital resources to meet the needs of its business; the Company's intent and ability to consummate acquisitions; the Company's continued investment in new products and technologies; the ultimate success of the Company's strategic alliances; the ultimate marketability of products currently being developed; the ability to successfully implement new technology; future declarations of cash dividends; the Company's ability to sustain sales and earnings growth; the Company's goals for sales and earnings growth; the future value of the Company's Common Stock; the ultimate effect of the Company's Share Repurchase Programs; the Company's success in achieving timely approval or clearance of its products with domestic and foreign regulatory entities; the stability of certain foreign economic markets; the impact of anticipated changes in the musculoskeletal industry and the ability of the Company to react to and capitalize on those changes; the impact of the transfer of responsibility for the Company's internal fixation products; the ability of the Company to integrate the operations of acquired businesses; 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. Readers of this report should carefully read the factors set forth under the caption "Business-Risk Factors" beginning on page 11 of this report for a description of certain risks that could, among other things, cause actual results to differ from those contained in forward-looking statements made in this report and presented elsewhere by management from time to time. Such factors, among others, may have a material adverse effect upon the Company's

business, financial condition and results of operations. The Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made.

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PART I

ITEM 1. BUSINESS.

GENERAL

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

The Company's principal subsidiaries include Biomet Orthopedics, Inc.; Biomet Manufacturing Corp.; EBI, L.P.; Biomet Europe B.V.; Implant Innovations, Inc.; Walter Lorenz Surgical, Inc. and Arthrotek, Inc. Unless the context requires otherwise, the term "Company" as used herein refers to Biomet and all of its subsidiaries.

On March 22, 2004, Biomet announced the completion of the acquisition of Merck KGaA's 50% interest in the Biomet Merck joint venture for an aggregate purchase price of $300 million in cash. The joint venture was established in 1998 and had sales of approximately $366 million during fiscal year 2004.

On June 18, 2004, the Company completed the merger of Interpore International, Inc., now known as Interpore Spine Ltd. ("Interpore"), with a wholly-owned subsidiary of Biomet. As a result of the merger, Interpore shareholders were entitled to receive $14.50 per share in cash, representing an aggregate purchase price of approximately $280 million. Interpore's primary products include spinal implants, orthobiologics and minimally-invasive surgery products used by surgeons in a wide variety of applications.

The Company's annual reports on Form 10-K (for the four most recent fiscal years), quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on, or may be accessed through, the Investors Section of the Company's Internet website at www.biomet.com as soon as reasonably practicable after the Company files or furnishes such material with or to the Securities and Exchange Commission.

PRODUCTS

The Company operates in one business segment, musculoskeletal products, which includes the design, manufacture and marketing of four major market segments: reconstructive products, fixation devices, spinal products and other products. The Company has three reportable geographic markets: United States, Europe and Rest of World. Reconstructive products include knee, hip and extremity joint replacement systems, as well as dental reconstructive implants, bone cements and accessories, the GPS(R) System and the procedure-specific instrumentation required to implant the Company's reconstructive systems. Fixation devices include internal and external fixation devices, craniomaxillofacial fixation systems and electrical stimulation devices that do not address the spine. Spinal products include electrical stimulation devices addressing the spine, spinal fixation systems and orthobiologics. The other product sales category includes softgoods and bracing products, arthroscopy products, casting materials, general surgical instruments, operating room supplies, wound care products and other surgical products. Depending on the intended application, the Company reports sales of bone substitute materials in the reconstructive product, fixation device or spinal product segment.

The following table shows the net sales and percentages of total net sales contributed by each of the Company's product segments for each of the three most recent fiscal years ended May 31, 2004.

	YEARS ENDED MAY 31, (DOLLAR AMOUNTS IN THOUSANDS)					
	2004		2003		2002	
	NET SALES	PERCENT OF TOTAL NET SALES	NET SALES	PERCENT OF TOTAL NET SALES	NET SALES	O N
Reconstructive Products	$1,052,865	65%	$ 867,602	63%	$ 721,004	
Fixation Devices	248,821	15%	237,117	17%	215,544	
Spinal Products	159,927	10%	143,607	10%	125,119	
Other Products	153,640	10%	141,974	10%	130,235	

Total	$1,615,253	100%	$1,390,300	100%	$1,191,902

RECONSTRUCTIVE PRODUCTS

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

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

The Company continues to be a market leader in addressing the increasing demand from practitioners and patients for procedures and products accommodating minimally-invasive knee techniques. The Repicci II(R) Unicondylar Knee System is specifically designed to accommodate a minimally-invasive knee arthroplasty procedure. This system incorporates self-aligning metal and polyethylene components. This innovative procedure can often be performed on an outpatient basis and requires a smaller incision and minimal bone removal, which may result in shorter recovery time and reduced blood loss. The Oxford(TM) Unicompartmental Knee, which is a mobile-bearing unicondylar knee that utilizes a minimally-invasive technique, continues to experience strong sales outside the United States. The Company has recently received approval from the U.S. Food and Drug Administration ("FDA") to market the Oxford(TM) Knee in the United States and the initial rollout of the Oxford(TM) Knee will begin in fiscal year 2005. The Oxford(TM) Knee is currently the only free-floating meniscal unicompartmental system approved for use in the United States. The Company's offering of minimally-invasive knee systems also includes the Alpina(R) Unicompartmental Knee, which is not currently available in the U.S., and the Vanguard M(TM) Series Unicompartmental Knee System. The Vanguard(TM) System is designed to accommodate surgeons who prefer a fully-instrumented, minimally-invasive unicondylar system, and incorporates a fixed-bearing tibial component to accompany the femoral component and instruments of the Oxford(TM) Unicompartmental Knee System.

The Maxim(R) Complete Knee System incorporates cruciate retaining, posterior stabilized and constrained components, and competes in both the primary and revision knee market segments. The Maxim(R) System continues to be the Company's largest-selling knee system.

The Ascent(TM) Total Knee System incorporates an open box posterior stabilized femoral component with a swept-back anterior flange that can accept either a posterior stabilized or constrained tibial bearing. This system is designed with a deepened patella groove to enhance patellar tracking and contribute to reduced lateral release rates. The Ascent(TM) System addresses the needs of both the primary and revision markets. The Ascent(TM) Knee System also features an option

with a cruciate retaining primary series for those patients who do not require a posterior stabilized femoral component.

The Biomet(R) Orthopaedic Salvage System (OSS(TM)) continues to gain market acceptance. This system provides modular flexibility while reducing overall inventory demands. The OSS(TM) System is used mainly in instances of severe bone loss or significant soft tissue instability as a result of multiple revision surgeries or oncological bone deficiencies.

During fiscal year 2004, the Company initiated the global launch of primary components of Biomet's newest and most comprehensive knee system, the Vanguard(TM) Complete Knee Replacement System. This launch was accomplished in conjunction with Biomet's Microplasty(R) Minimally Invasive Total Knee Instrumentation, and will continue throughout fiscal year 2005. The Company also promotes the Microplasty(R) Total Knee Instruments as the instrument set of choice for support of both the Maxim(R) and Ascent(TM) Knee Systems. The Microplasty(R) Instrumentation is designed to reduce incision size and surrounding soft tissue disruption, which may provide reduced blood loss, a shortened hospital stay, reduced postoperative pain and less time spent in rehabilitation, as compared to a conventional procedure.

During fiscal year 2005, the Company intends to continue to focus development efforts on the completion of the mobile bearing and revision options of the Vanguard(TM) Complete Knee System, as well as expansion of the instrument platform to include less invasive posterior referencing, anterior referencing, and image guided options.

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

femoral and acetabular prostheses are manufactured by the Company in a variety of sizes and configurations. The Company offers a broad array of total hip systems, most of which utilize titanium or cobalt chromium alloy femoral components and the Company's patented ArCom(R) polyethylene-lined or metal-on-metal acetabular components. Many of the femoral prostheses utilize the Company's proprietary porous plasma spray (PPS(TM)) coating, which enhances the attachment of bone cement to the stem or enables cementless fixation.

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

The Mallory/Head(R) Hip System is designed for both primary and revision total hip arthroplasty procedures. The primary femoral components feature a specific

proximal geometry for cementless indications and a slightly different proximal ribbed geometry for those patients requiring fixation with bone cement. The Mallory/Head(R) Revision Calcar components provide innovative solutions for difficult revision cases and have demonstrated excellent clinical results. The Mallory/Head(R) Calcar replacement prosthesis is offered in both a one-piece and modular geometry, which allows for individual customization at the time of surgical intervention, even in cases of severe bone deficiency. The modular version of the Mallory/Head(R) System incorporates the Company's patented roller hardened technology, which dramatically increases the strength of the modular connection.

The Company continues to explore the development of innovative articulation technologies and materials. Biomet's M(2)a(TM) Metal-on-Metal Hip System combines a cobalt chrome head with a cobalt chrome liner and has demonstrated a 20- to 100-fold reduction in volumetric wear in simulator studies compared to traditional metal-polyethylene articulation systems. The M(2)a-Taper(TM) Metal-on-Metal Articulation System may be utilized on most of Biomet's femoral components and has continued to evolve with the introduction of the M(2)a-38(TM) Hip Articulation System, which incorporates larger diameter metal-on-metal components designed to offer increased range of motion and decrease the likelihood of hip dislocation. The C(2)a(TM) RingLoc(R) Ceramic-on-Ceramic Articulation System, being sold in markets outside the United States, is currently in clinical studies within the United States. The Company is also developing the C(2)a(TM)-Taper Ceramic-on-Ceramic Articulation System, which may be introduced during calendar year 2005. In addition, the Company is pursuing the development of a diamond-on-diamond hip articulation system through its relationship with Diamicron, Inc., a global leader in the research, development and manufacture of polycrystalline diamond composite technology for biomedical applications. During fiscal year 2005, the Company also intends to introduce ArCom(R) XL, a highly-crosslinked polyethylene.

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

The Company continues to enhance its commitment to minimally-invasive approaches to surgical techniques through the development of the Microplasty(R) Minimally Invasive Hip Instruments. Biomet's minimally-invasive hip development efforts have been focused on four surgical approaches. Instruments relating to the posterior and anterior lateral approaches were introduced during fiscal year 2004 and instruments relating to additional approaches are scheduled for introduction during fiscal year 2005. The superior design of the Microplasty(R) Minimally Invasive Hip Instruments helped to increase the demand for Biomet's hip systems throughout the world during fiscal year 2004.

The Company has a complete line of constrained hip liners, which are indicated for patients with a high risk of hip dislocation. While the percentage of patients requiring a constrained liner is relatively small, surgeons often prefer to utilize a primary and revision system that includes this option. The Freedom(R) Constrained Liner, introduced during fiscal year 2004, offers an enhanced range of motion of 110(degree) and a wide series of options.

The Company intends to introduce several new hip products during fiscal year 2005, including the M(2)a Magnum(TM) Metal-on-Metal Acetabular System and the ReCap(R) Femoral Resurfacing System. The M(2)a Magnum(TM) System utilizes a larger head design, ranging in size from 38mm to 60mm, designed to more closely replicate natural anatomy. The M(2)a Magnum(TM) System is designed to provide

the surgeon with the ability to implant a larger femoral head in a patient with a small acetabulum. The ReCap(R) Total Resurfacing System, scheduled for launch in Europe in fiscal year 2005, is a bone-conserving system cleared for use with patients in the early stages of degenerative joint disease, including osteoarthritis, rheumatoid arthritis and avascular necrosis.

EXTREMITY Systems. The Company offers a variety of shoulder systems including the Absolute(R) Bi-Polar, Bi-Angular(R), Bio-Modular(R), Copeland(TM), Integrated(TM) and Mosaic(TM) Shoulder Systems, as well as uniquely-designed elbow replacement systems.

The Copeland(TM) Humeral Resurfacing Head was developed to minimize bone removal in shoulder procedures and has over 10 years of positive clinical results in the United Kingdom. The modular Mosaic(TM) System is utilized to create a shoulder implant in complex revision and salvage/oncology procedures. The Discovery(TM) Elbow is a unique total elbow device that incorporates an ArCom(R) polyethylene molded bearing and condylar hinge mechanism designed to produce a more anatomic articulation than observed in simple hinged elbow implants. The iBP(TM) (Instrumented Bone Preserving) Elbow System is marketed in Europe and is designed to closely resemble the natural anatomy of the elbow to allow for a more complex pattern of movement than simple hinged implants.

DENTAL RECONSTRUCTIVE IMPLANTS. Through its subsidiary, Implant Innovations, Inc.("3i"), the Company develops, manufactures and markets products designed to enhance oral rehabilitation through the replacement of teeth and the repair of hard and soft tissues. These products include dental reconstructive implants and related instrumentation, bone substitute materials and regenerative products and materials. A dental implant is a small screw or cylinder, normally constructed of titanium, that is surgically placed in the bone of the jaw to replace the root of a missing tooth and provide an anchor for an artificial tooth. 3i's flagship product, the OSSEOTITE(R) product line, 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. The OSSEOTITE(R) CERTAIN(TM) implant system, introduced during fiscal year 2004, is an internally connected system that, through the use of the QuickSeat(TM) connection, provides audible and tactile feedback when abutments and copings are seated into the implant. In addition, the 6/12 point connection design of the OSSEOTITE(R) CERTAIN(TM) implant system offers enhanced flexibility in placing the implant and abutment. 3i also introduced the DIEM(TM) Immediate Occlusal Loading(TM) Guidelines during fiscal year 2004 as a reference for the use of specially-designed components and surgical tools that allows clinicians to offer the convenience of one-visit implant therapy to appropriate patients.

3i's offering of restorative treatment options also includes the GingiHue(TM) Post and the ZiReal(TM) Post. The GingiHue(TM) Post is a gold-colored titanium nitride coated abutment, which optimizes the projection of natural color to approximate the appearance of natural teeth. The ZiReal(TM) Post offers a highly aesthetic restorative option. This zirconia-based implant provides the natural translucence of ceramic material, but with greater strength, durability and resistance to cracking than conventional aluminum oxide ceramic abutments. Both of these products may be used with conventional crown and bridge techniques.

OTHER RECONSTRUCTIVE DEVICES. Biomet's Patient-Matched Implant ("PMI(R)") services group expeditiously designs, manufactures and delivers one-of-a-kind reconstructive devices to orthopedic specialists. The Company believes this service continues to enhance Biomet's reconstructive sales by strengthening its relationships with orthopedic surgeons and augmenting its reputation as a responsive company committed to excellent product design. In order to assist

orthopedic surgeons and their surgical teams in preoperative planning, Biomet's PMI(R) group utilizes a three-dimensional ("3-D") bone and soft tissue reconstruction imaging system. The Company uses computed tomography ("CT") data to produce 3-D reconstructions for the design and manufacture of patient-matched implants. Biomet also provides anatomic physical models based on patient CT data. With this imaging and model-making technology, Biomet's PMI(R) group is able to assist the physician prior to surgery by creating 3-D models. Within strict deadlines, the model is used by engineers to create a PMI(R) design for the actual manufacturing of the custom implant for the patient.

The Company is involved in the ongoing development of bone cements and delivery systems. The Company has successfully penetrated the domestic and European cement markets with Palacos(R) Bone Cement, which is marketed primarily in conjunction with the Optivac(R) Vacuum Mixing System. The Generation 4(R) Bone Cement with VacPac(R) Delivery System is a proprietary, self-contained system designed to promote consistency and integrity of the cement, eliminate exposure to fumes during mixing, and reduce operating room time due to ease of the mixing and delivery process. During fiscal year 2004, Biomet received 510(k) clearance to market Palacos(R) G Bone Cement with gentamicin antibiotic in the United States. Palacos(R) cement with gentamicin antibiotic has been the standard of care in Europe for thirty-live years.

Additional products and services for reconstructive indications include bone graft substitute materials and services related to allograft material. Calcigen(R) S calcium sulfate bone graft substitute is a self-setting paste used to fill bone voids. The Calcigen(R) PSI (Porous Synthetic Implant) Bone Graft System is a porous, calcium phosphate bone substitute material used as a bone void filler. The Company also provides services related to the supply of allograft material procured through several tissue bank alliances. Biomet's VacPac(R) System, initially designed for the vacuum mixing and delivery of bone cement, is also being utilized to package freeze-dried allografts. The flexible vacuum package allows rehydration with saline, blood or blood products inside the

Palacos(R) is a registered trademark of Heraeus Kulzer GmbH.

vacuum package. Markets being addressed by the Company's allograft services include the orthopedic and dental reconstructive market segments, as well as the spinal and arthroscopy segments.

The GPS(R) (Gravitational Platelet Separation) System, which is distributed by the Company's Cell Factor Technologies subsidiary, is a unique device that collects platelet concentrate from a small volume of the patient's blood using a fast, single spin process. The GPS(R) System offers a high quality platelet concentrate and has broad potential applications in the reconstructive and spine markets. The GPS(R) System is marketed in conjunction with the Biomet(R) Rapid Recovery Program, a comprehensive approach to patient education, a minimally-invasive surgical approach and pain management that was developed in conjunction with leading U.S. orthopedic surgeons.

During fiscal year 2004, Biomet began the introduction of the Acumen(TM) Surgical Navigation System to the global market, enhancing visualization for minimally-invasive and traditional procedures. Procedure-specific software continues to be developed for reconstructive, fixation, spinal and arthroscopic procedures. During fiscal year 2004, the Company received clearances from the FDA for the Acumen(TM) Surgical Navigation System software for use with the Maxim(R) Complete Knee System, the OptiROM(R) Elbow Fixator, the Quad 4(TM) Intramedullary Nail System and the SpineLink(R)-II Spinal Fixation System. The

Company anticipates receiving clearances from the FDA during fiscal year 2005 for the Acumen(TM) Navigation System software for use with the Repicci II(R) Unicondylar Knee System and the Taperloc(R) Hip System.

FIXATION DEVICES

The Company's fixation products include electrical stimulation devices (that do not address the spine), external fixation devices, craniomaxillofacial fixation systems, internal fixation devices and bone substitute materials utilized in fracture fixation applications.

ELECTRICAL STIMULATION SYSTEMS. The Company's subsidiary, EBI, L.P. ("EBI"), is the market leader in the electrical stimulation segment of the fixation market. In fiscal year 2004, the FDA acknowledged EBI's extensive preclinical research documenting the Mechanism of Action for its pulsed electromagnetic field ("PEMF") technology. The Mechanism of Action for the PEMF technology involves the stimulation of a cascade of bone morphogenic proteins ("BMPs").

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

The OrthoPak(R) Bone Growth Stimulation System offers a small, lightweight, non-invasive bone growth stimulator using capacitive coupling technology. The Mechanism of Action behind EBI's capacitive coupling stimulation technology involves the stimulation of osteopromotive factors involved in normal bone healing, such as TGF-B1 and PGE2. The OrthoPak(R) System provides greater ease of use and enhances access to fracture sites.

EBI also offers an implantable option when bone growth stimulation is required subsequent to surgical intervention. The EBI OsteoGen(R) Surgically Implanted Bone Growth Stimulator is an adjunct treatment when bone grafting and surgical intervention are required to treat a recalcitrant fracture. The Mechanism of Action behind EBI's direct current stimulation technology involves the stimulation of a number of osteoinductive growth factors including BMP-2, -6 and -7 and the BMP-2 receptor ALK2, which are normal physiological regulators of various stages of bone healing, including chondrogenesis and osteogenesis. In addition, electrochemical reactions at the cathode lower oxygen concentrations and increase pH. These reactions result in enhanced osteoblastic activity and decreased osteoclastic activity.

EXTERNAL FIXATION DEVICES. External fixation is utilized for stabilization of fractures when alternative methods of fixation are not suitable. The Company's EBI subsidiary offers a complete line of systems that address the various segments of the trauma and reconstructive external fixation marketplace. The DynaFix(R) and DynaFix(R) Vision(TM) Systems are patented, modular external fixation devices intended for use in complex trauma situations involving upper extremities, the pelvis and lower extremities. EBI also has a full line of

external fixation products for certain reconstructive procedures involving limb lengthening, fusion, articulated fixation and deformity correction applications.

INTERNAL FIXATION DEVICES. The Company's internal fixation devices include products such as nails, plates, screws, pins and wires designed to temporarily stabilize traumatic bone injuries. These devices are used by orthopedic surgeons to provide an accurate means of setting and stabilizing fractures. They are intended as aids to healing and may be removed when healing is complete; they are not intended to replace normal body structures. During fiscal year 2004, the Company transferred its internal fixation business from Biomet Orthopedics to EBI, allowing the Company's full range of fixation products to be distributed by EBI for a more dynamic selling approach. The full implementation of this transition is expected to continue through fiscal year 2005.

The VHS(R) Vari-Angle Hip Fixation System, used primarily in the treatment of hip fractures, is a growing product line for the Company. The components of the VHS(R) Vari-Angle Hip Fixation System can be adjusted intraoperatively, allowing the hospital to carry less inventory, while providing greater intraoperative flexibility to achieve the optimum fixation angle. The Holland(TM) Nail System is a single, universal trochanteric nail designed to treat all types of femoral (hip or thigh) fractures. The Biomet(R) Low Profile Tibial Nail, used to treat fractures between the knee and ankle, is primarily indicated in the treatment of unstable or nonunion fractures. The Quad 4(TM) Intramedullary Nail System requires approximately 50% less inventory than competitive systems and is uniquely designed to address the widest possible variety of femoral fractures. The Biomet(R) Ankle Arthrodesis Nail is designed for reconstructive procedures where internal fixation is the desired fixation option to achieve solid fusion of the ankle joint. During fiscal year 2004, the Company initiated several development projects, including minimally-invasive plating systems and next generation intramedullary nail products to enhance the Company's fixation portfolio of products.

CRANIOMAXILLOFACIAL FIXATION SYSTEMS. The Company manufactures and distributes craniomaxillofacial and neurosurgical titanium and resorbable implants, along with associated surgical instrumentation, principally marketed to craniomaxillofacial, neurosurgical and craniofacial surgeons through its subsidiary, Walter Lorenz Surgical, Inc. ("Lorenz Surgical"). Lorenz Surgical also offers specialty craniomaxillofacial surgical instruments, HTR-PMI(R) Hard Tissue Replacement material custom craniofacial implants and the Mimix(TM) Bone Substitute Material for use in craniomaxillofacial and neurosurgical applications.

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

Mimix(TM) Bone Substitute Material is a synthetic tetra-calcium phosphate/tri-calcium phosphate material. This material is most commonly used for the repair of cranial defects and is currently offered in putty form. Mimix(TM) QS, a quick-setting bone substitute material, provides surgeons with a faster-setting formulation. The Company intends to introduce the Mimix(TM) MP (malleable putty) during fiscal year 2005. This version of the Mimix(TM) material in malleable putty form is designed to improve handling properties of this self-setting bone void filling material.

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

SPINAL PRODUCTS

The Company's spinal products include electrical stimulation devices for spinal applications, spinal fixation systems, bone substitute materials and allograft services for spinal applications and artificial disc replacement products.

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

The EBI SpinalPak(R) Spine Fusion Stimulator utilizes capacitive coupling technology to encourage fusion incorporation. The Mechanism of Action behind the capacitive coupling stimulation technology involves the stimulation of osteopromotive factors that modulate normal bone healing, such as TGF-B1 and PGE2. The unit consists of a small, lightweight generator worn outside the body that is connected to wafer-thin electrodes applied over the fusion site. The SpinalPak(R) System is patient friendly, enhancing comfort whether the patient is standing, sitting or reclining, and optimizes compliance with the treatment regimen to achieve fusion success.

VHS(R) is a registered trademark of Implant Distribution Network, Ltd.

EBI's surgically implanted SpF(R) Spinal Fusion Stimulator consists of a generator that provides a constant direct current to titanium cathodes placed where bone growth is required. The Mechanism of Action behind EBI's direct current stimulation technology involves the stimulation of a number of osteoinductive growth factors including BMP-2, -6 and -7 and the BMP-2 receptor ALK2, which are normal physiological regulators of various stages of bone healing, including chondrogenesis and osteogenesis. The SpF(R) System has exhibited a 50% increase in fusion success rates over fusions with autograft alone.

SPINAL FIXATION SYSTEMS. The Company distributes a traditional rod and plate system under the trademark EBI(R) Omega 21(TM) Spine System. EBI also manufactures and markets the SpineLink(R)-II Spinal Fixation System, which addresses many of the inherent limitations of traditional rod and plate systems by linking each spine segment individually for intra-segmental control. Through the use of a modular titanium link and polydirectional screw, this unique system provides an intrasegmental solution to spine fixation, enabling the surgeon to tailor the segmental construction to the patient's anatomy. EBI's VueLock(R) Anterior Cervical Plate System offers surgeons several important benefits, including a one-step locking mechanism featuring a pre-attached expansive ring that eliminates the need for additional locking components, as well as a low profile that minimizes interference with anatomical soft tissue structures. In addition, the open design of the VueLock(R) System provides surgeons with

enhanced visualization of the bone graft both during the actual surgical procedure and post-operatively on x-ray. EBI entered the top-loading pedicle screw market in fiscal year 2004 with the Array(TM) Spinal System. The Array(TM) System has a single, locking setscrew featuring V-Force(TM) Thread Technology designed to enhance the intraoperative ease of use for the surgeon during system locking. During fiscal year 2004, EBI continued the launch of the VuePASS(TM) Portal Access Surgical System, which offers a minimally-invasive spinal fusion procedure option. The Ionic(R)Spine Spacer System features an open design that allows for optimal bone graft placement and bone ingrowth, along with the additional benefit of excellent postoperative x-ray visualization.

BONE SUBSTITUTE MATERIALS. Traditional spinal fixation surgery includes the use of a spinal fixation device in conjunction with a bone substitute or bone graft material to increase the likelihood of successful bone fusion. The OsteoStim(R) Resorbable Bone Graft Substitute material is a granular form of calcium phosphate that is resorbed and replaced with natural bone during the healing process. The EBI(R) OsteoStim(R) DBM (Demineraiized Bone Matrix) Putty, derived exclusively from human bone, can be used with a variety of substances, such as bone substitute material, machined allograft, autograft and platelet rich plasma, to enhance the surgeon's treatment options. EBI also markets the OsteoStim(R) Skelite(R) Resorbable Bone Graft Substitute.

PRECISION MACHINED ALLOGRAFT. Many spinal fusion procedures, in both the lumbar and cervical spine, involve inter-body spinal fusion. Surgeons often utilize precision machined allograft spacers to fuse the interbody space. EBI distributes the OsteoStim(R) Cervical Allograft Spacer for anterior cervical interbody fusions and the OsteoStim(R) ALIF Allograft Spacer for anterior lumbar interbody fusions. In fiscal year 2004, EBI introduced the OsteoStim(R) PLIF Allograft Spacer for posterior lumbar interbody fusions. All three systems are lordotic in shape, have serrated teeth on the top and bottom for added stability, are offered in various heights and have specific instrumentation to facilitate implantation.

ARTIFICIAL DISC REPLACEMENT PRODUCTS. The clinical study for the lumbar version of EBI's Regain(TM) Artificial Disc, a one-piece pyrocarbon artificial disc nucleus replacement, is scheduled to begin during fiscal year 2005. The pyrocarbon material has a high level of strength, is biocompatible and extremely resistant to wear. The clinical study for the cervical version of Regain(TM) Artificial Disc is also scheduled to begin during fiscal year 2005. In addition, EBI is developing lumbar and cervical versions of the Rescue(TM) Total Disc Replacement product. Further, the Company's development efforts in the artificial disc market will be augmented in fiscal year 2005 as a result of the acquisition of Interpore International, Inc. and its Min T(TM) Artificial Disc.

OTHER PRODUCTS

The Company also manufactures and distributes several other products, including orthopedic support products (also referred to as softgoods and bracing products), arthroscopy products, operating room supplies, casting materials, general surgical instruments, wound care products and other surgical products. EBI manufactures and distributes an extensive line of orthopedic support products under the EBI(R) Sports Medicine trade name. The Company manufactures and markets a line of arthroscopy products through its Arthrotek, Inc. ("Arthrotek") subsidiary'.

ORTHOPEDIC SUPPORT PRODUCTS. EBI distributes a line of orthopedic support products under the EBI(R) Sports Medicine name, including traction framing equipment, back supports, wrist and forearm splints, cervical collars, shoulder immobilizers, slings, abdominal binders, knee braces and immobilizers, rib belts, ankle supports and a variety of other orthopedic splints. Sales of these softgoods and bracing products are assisted by the Support-on-Site (S.O.S.(SM)) stock and bill program, which efficiently handles the details of product

delivery for the healthcare provider. The MD (multi-dimensional) Elbow Brace, with its dual-hinge adjustment to control range of motion, accommodates various treatment and rehabilitation plans. During fiscal

Skelite is a registered trademark of Millenium Biologix, Inc.

year 2004, EBI introduced the Alliance(TM) Functional Knee Brace, a lightweight product, anatomically designed for each patient. EBI is committed to continuing to expand its line of orthopedic support devices and intends to launch the Alliance(TM) OTS (off the shelf) Brace during fiscal year 2005. EBI also intends to create further line extensions during fiscal year 2005 related to the following product groups: EBI/Aircast Cryo-Cuff(R) , Fracture Walker with Gravity Cold Therapy Liner, Gravity Ankle System, Shoulder Wedge, Universal Hand Splint, Ulnar Styloid Wrist Brace, and the Sports Back Brace.

ARTHROSCOPY PRODUCTS. Arthroscopy is a minimally-invasive orthopedic surgical procedure in which an arthroscope is inserted through a small incision to allow the surgeon direct visualization of the joint. This market is comprised of five product categories: power instruments, manual instruments, visualization products, soft tissue anchors, and procedure-specific instruments and implants. Arthrotek's principal products consist of the CurvTek(R) Bone Tunneling System for the reattachment of soft tissue to bone, LactoSorb(R) resorbable arthroscopic fixation products, MaxBraid(TM) PE high strength suture material and the Bone Mulch(TM) Screw/WasherLoc(TM) Device for anterior cruciate ligament repair.

PRODUCT DEVELOPMENT

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

The Company continues to aggressively conduct internal research and development efforts to generate new marketable products, technologies and materials. In addition, the Company is well positioned to take advantage of external acquisition and development opportunities. An important component of the Company's strategy has been the formation of strategic alliances to enhance the development of new musculoskeletal products, including the relationships forged with Z-KAT, Inc. and Diamicron, Inc. The relationship with Z-Kat, Inc. has resulted in the Acumen(TM) Surgical Navigation System.

For the years ended May 31, 2004, 2003 and 2002, the Company expended approximately $64,886,000, $55,309,000 and $50,750,000, respectively, on research and development. It is expected that ongoing research and development expenses will continue to increase. The Company's principal research and development efforts relate to its reconstructive devices, electrical stimulation products, spinal fixation products, revision orthopedic reconstructive devices, dental reconstructive implants, arthros-copy products, resorbable technology, biomaterial products and image-guided software in the musculoskeletal products field.

The Company's research and development efforts have produced more than 410 new products and services during the last five fiscal years. During fiscal year 2005, the Company intends to release several new products, product line

extensions and improvements.

GOVERNMENT REGULATION

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

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

The Company believes it is well positioned to face the changing international regulatory environment. The International Standards Organization ("ISO") has an internationally recognized set of standards aimed at ensuring the design and manufacture of quality products. A company that has passed an ISO audit and obtained ISO registration is internationally recognized as having quality manufacturing processes. The European Union requires that medical products bear a CE mark. The CE mark is an international symbol, which indicates that the product adheres to European Medical Device Directives. Compliance with ISO quality systems standards is one of the requirements for placing the CE mark on the Company's products. Each of the Company's products sold in Europe bears the CE mark.

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

factors affecting a specific hospital's reimbursement rate include the size of the hospital, its teaching status and its geographic location. The Company's orthopedic reconstructive products are primarily covered by DRG 209 (Major Joint and Limb Reattachment Procedures-Lower Extremities), DRG 471 (Bilateral Major Procedures of the Lower Extremity) and DRG 491 (Major Joint and Limb Reattachment Procedures-Upper Extremities), and have also received approval for pass-through coding under the Hospital Outpatient Prospective Payment System. Effective October 1,2003, certain reimbursements for DRG payment were adjusted. The payments for DRG 209,471 and 491 increased 1.6%, 2.3% and 4.0%, respectively. The average DRG payments for spinal and trauma procedures increased 4.5% and 4.7%, respectively. Revised DRG rates will go into effect for certain DRG codes effective October 1,2004. The reimbursement rates for DRG 209,471 and 491 are scheduled to increase 2.7%, 2.5% and 2.5%, respectively. In addition, the average reimbursement rates for spinal and trauma procedures are proposed to increase 4.9% and 3.9%, respectively.

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

SALES AND MARKETING

The Company believes that sales of its products are currently affected and will continue to be positively affected by favorable demographic trends and a shift toward a preference for technologically-advanced products. The demand for musculoskeletal products continues to grow, in part, as a result of the aging of the baby boomer population in the United States. The U.S. Census Bureau projections indicate that the population aged 55 to 75 years is expected to grow to approximately 64 million by the year 2014. Moreover, the age range of potential patients is expanding outside the traditional 55 to 75 year range, as procedures are now being recommended for younger patients and as elderly patients are remaining healthier and more active than in past generations. The Company has also observed a trend toward a demand for technologically-advanced products that are simple to use and cost effective, while applying state-of-the-art solutions to the demands of the increasingly active patient. The Company believes it has firmly positioned itself as a surgeon advocate and has worked to promote the right of the surgeon to prescribe the medical treatment best suited to the needs of the individual patient.

The Company has diligently worked to attract and retain qualified, well-trained and motivated sales representatives. The breadth of the Company's product offering and the quality of its salesforces collaborate to create synergies that uniquely position the Company to continue to efficiently penetrate the musculoskeletal market. In the United States, the Company's products are marketed by a combination of independent commissioned sales agents and direct sales representatives, based on the specific product group being represented. In Europe, the Company's products are promoted by a mixture of direct sales representatives, independent third-party distributors, and some independent commissioned sales agents, based primarily on the geographic location. In the rest of the world, the Company maintains direct selling organizations in approximately ten countries, as well as independent commissioned sales agents and independent third-party distributors in other key markets. In aggregate, the Company's products are marketed by more than 2,200 sales representatives throughout the world.

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

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

For the fiscal years ended May 31,2004, 2003 and 2002, the Company's foreign sales aggregated $535,721,000, $423,662,000 and $335,527,000, respectively, or 33%, 30% and 28% of net sales, respectively. Major international markets for the Company's products are Western Europe, Asia Pacific, Australia, Canada and Latin America. The Company's business in these markets is subject to pricing pressures and currency fluctuation risks. During fiscal year 2004, foreign sales were positively impacted by $63.7 million due to foreign currency translations. As the Company continues to expand in key international markets, it faces obstacles created by competition, governmental regulations and regulatory requirements. Additional data concerning net sales to customers, operating income, long-lived assets, capital expenditures and depreciation and amortization by geographic areas are set forth in Note L of the Notes to Consolidated Financial Statements included in Item 8 of this report and are incorporated herein by reference.

The Company has inventory located throughout the world with its customers, its distributors and direct salespersons for their use in marketing its products and in filling customer orders. As of May 31,2004, inventory of approximately $148,830,000 was located with these distributors, salespersons and customers.

COMPETITION

The business of the Company is highly competitive. Major competitors in the orthopedic reconstructive device market include DePuy, Inc., a subsidiary of Johnson & Johnson; Stryker Orthopaedics, a division of Stryker Corp.; Zimmer, Inc., a subsidiary of Zimmer Holdings, Inc.; and Smith & Nephew plc. Management believes these four companies, together with Biomet Orthopedics, have the predominant share of the orthopedic reconstructive device market. Competition within the industry is primarily based on service, clinical results, and product design, although price competition is an important factor as healthcare providers continue to be concerned with costs. The Company believes that its prices for orthopedic reconstructive devices are competitive with those in the industry. The Company believes its future success will depend upon its service and responsiveness to its distributors and orthopedic specialists, the continued superior clinical results of its products, and upon its ability to design and market innovative and technologically-advanced products that meet the needs of the marketplace.

EBI's spinal fixation systems compete with those of Medtronic/Sofamor Danek, Inc., a subsidiary of Medtronic, Inc.; DePuy Spine, a Johnson & Johnson company; Synthes, Inc.; Stryker Spine, a division of Stryker Corp.; Zimmer Spine, a subsidiary of Zimmer Holdings, Inc.; and others.

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

EBI's electrical stimulation devices primarily compete with those offered by Orthofix, Inc., a subsidiary of Orthofix International N.V.; dj Orthopedics, LLC, a subsidiary of dj Orthopedics, Inc.; and Smith & Nephew plc. Competition in the electrical stimulation market is on the basis of product design, service and success rates of various treatment alternatives.

3i products compete in the areas of dental reconstructive implants and related products. Its primary competitors in the dental implant market include Straumann AG; Nobel Biocare AB; and Zimmer Dental, a subsidiary of Zimmer Holdings, Inc.

Lorenz Surgical primarily competes in the craniomaxillofacial fixation, specialty surgical instrumentation and neurosurgical cranial flap fixation markets. Its competitors include Synthes, Inc.; Stryker Leibinger Micro Implants, a division of Stryker Corp.; KLS-Martin, L.P.; and Osteomed Corp.

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

RAW MATERIALS AND SUPPLIES

The raw materials used in the manufacture of the Company's orthopedic reconstructive devices are principally nonferrous metallic alloys, stainless steel and polyethylene powder. With the exception of limitations on the supply of polyethylene powder, none of the Company's raw material requirements are limited to any material extent by critical supply or single origins. The demand for certain raw materials used by the Company, such as cobalt alloy and titanium may vary. The primary buyers of these metallic

alloys are in the aerospace industry. If the demands of the aerospace industry should increase dramatically, the Company could experience complications in obtaining these raw materials. However, based on its current relationship with its suppliers, the Company does not anticipate a material shortage in the foreseeable future. Further, the Company believes that its inventory' of raw materials is sufficient to meet any short-term supply shortages of metallic alloys. The results of the Company's operations are. not materially dependent on raw material costs.

EBI purchases all components of its electrical stimulators from approximately 120 outside suppliers, approximately 15 of whom are the single source of supply for the particular product. In most cases, EBI believes that all components are replaceable with similar components. In the event of a shortage, there are alternative sources of supply available for all components, but some time would likely elapse before EBI's orders could be filled.

3i purchases all materials to produce its products from approximately 82 suppliers, approximately 26 of whom are the single source of supply for the particular product. 3i believes that, in the event of a shortage, there are readily available alternative sources of supply for all products, and maintains an inventory of materials sufficient to meet any short-term shortages of supply.

EMPLOYEES

As of May 31, 2004, the Company's domestic operations (including Puerto Rico) employed approximately 3,620 persons, of whom approximately 1,860 were engaged

in production and approximately 1,760 in research and development, sales, marketing, administrative and clerical efforts. The Company's international subsidiaries employed approximately 1,710 persons, of whom approximately 825 were engaged in production and approximately 885 in research and development, sales, marketing, administrative and clerical efforts. None of the Company's principal domestic manufacturing employees is represented by a labor union. The production employees at its Bridgend, South Wales facility are organized. Employees working at the facilities in Darmstadt and Berlin, Germany; Valence, France; and Valencia, Spain are represented by statutory Workers' Councils which negotiate labor hours and termination rights. The Workers' Councils do not directly represent such employees with regard to collective bargaining of wages or benefits. The Company believes that its relationship with all of its employees is satisfactory.

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

PATENTS AND TRADEMARKS

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

BIOMET, EBI, W'. LORENZ, 3i and ARTHROTEK are the Company's principal registered trademarks in the United States, and federal registration has been obtained or is in process with respect to various other trademarks associated with the Company's products. The Company holds or has applied for registrations of various trademarks in its principal foreign markets. Unless otherwise noted in this report, all trademarks contained herein are owned by Biomet, Inc. or one of its affiliates.

RISK FACTORS

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

should be read in conjunction with the consolidated financial statements and related notes included herein. Because of these and other factors, past financial performance should not be considered an indication of future performance.

THE COMPANY'S FUTURE PROFITABILITY DEPENDS ON THE SUCCESS OF THE COMPANY'S PRINCIPAL PRODUCT LINES.

Sales of the Company's reconstructive products accounted for approximately 65% of the Company's net sales for the year ended May 31, 2004. The Company expects sales of reconstructive products to continue to account for a significant portion of the Company's aggregate sales. Any event adversely affecting the sale of reconstructive products may, as a result, adversely affect the Company's business, results of operations and financial condition.

IF THE COMPANY IS UNABLE TO CONTINUE TO DEVELOP AND MARKET NEW PRODUCTS AND TECHNOLOGIES IN A TIMELY MANNER, THE DEMAND FOR THE COMPANY'S PRODUCTS MAY DECREASE, OR THE COMPANY'S PRODUCTS COULD BECOME OBSOLETE, AND THE COMPANY'S REVENUE AND PROFITABILITY MAY DECLINE.

The market for the Company's products is highly competitive and dominated by a small number of large companies. The Company is continually engaged in product development, research and improvement efforts, and new products and line extensions of existing products represent a significant component of the Company's growth rate. The Company's ability to continue to grow sales effectively depends on its capacity to keep up with existing or new products and technologies in the musculoskeletal products market. In addition, if the Company's competitors' new products and technologies reach the market before the Company's products, they may gain a competitive advantage or render the Company's products obsolete. See "Competition" in Item 1 - "Business" of this Form 10-K for more information about the Company's competitors. The ultimate success of the Company's product development efforts will depend on many factors, including, but not limited to, the Company's ability to create innovative designs, materials and surgical techniques; accurately anticipate and meet customers' needs; commercialize new products in a timely manner; and manufacture and deliver products and instrumentation in sufficient volumes on time.

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

THE COMPANY IS SUBJECT TO SUBSTANTIAL GOVERNMENT REGULATION THAT COULD HAVE A MATERIAL ADVERSE EFFECT ON THE COMPANY'S BUSINESS.

Most aspects of the Company's business are subject to some degree of government regulation in the countries in which its operations are conducted. As discussed under the heading "Government Regulation" in Item 1 - "Business" of this Form 10-K, for some products and in some areas of the world, such as the United States, Canada, Japan and Europe, government regulation is significant. Overall, there appears to be a trend toward more stringent regulation throughout the world. The Company does not anticipate this trend to dissipate in the near future. In addition, the medical device industry is subject to a myriad of complex laws governing Medicare and Medicaid reimbursements, and the U.S.

Department of Health and Human Services has become increasingly vigilant in recent years with respect to investigations of various business practices. Further, as a publicly-traded company, the Company is subject to increasingly demanding corporate and financial legislation in the United States, such as the Sarbanes-Oxley Act of 2002, which requires the time and attention of management and creates additional costs and expenses. In general, the development, testing, manufacture and marketing of the Company's products are subject to extensive regulation and review by numerous governmental authorities both in the United States and abroad. The regulatory process requires the expenditure of significant time, effort and expense to bring new products to market. In addition, the Company is required to implement and maintain stringent reporting, labeling and record keeping procedures. The Company cannot assure that the relevant authorities will approve any of its products. Furthermore, governmental and regulatory actions against the Company can result in various actions that could adversely impact the Company's operations, including:

- the recall or seizure of products;
- the suspension or revocation of the authority necessary for the production or sale of a product;
- the imposition of fines and penalties;
- the delay of the Company's ability to introduce new products into the market; and
- other civil or criminal sanctions against the Company.

THE COMPANY IS SUBJECT TO RISKS ARISING FROM CURRENCY EXCHANGE RATE FLUCTUATIONS, WHICH COULD INCREASE THE COMPANY'S COSTS AND MAY CAUSE THE COMPANY'S PROFITABILITY TO DECLINE.

During fiscal year 2004, sales of the Company's products in foreign markets approximated $535,721,000, or 33% of the Company's total revenues. Accordingly, the U.S. dollar value of the Company's foreign-generated revenues varies with currency exchange rate fluctuations. Measured in local currency, the majority of the Company's foreign-generated revenues was generated in Europe. Significant increases in the value of the U.S. dollar relative to foreign currencies could have an adverse effect on the Company's results of operations. The Company's consolidated net sales were favorably affected by 4.6% and 3.2% during fiscal

years 2004 and 2003, respectively, as a result of the impact of foreign currency translations. At the present time, the Company does not engage in hedging transactions to protect against uncertainty in future exchange rates between any particular foreign currency and the U.S. dollar.

SALES MAY DECLINE IF THE COMPANY'S CUSTOMERS DO NOT RECEIVE ADEQUATE LEVELS OF REIMBURSEMENT FROM THIRD-PARTY PAYORS FOR THE COMPANY'S PRODUCTS AND IF CERTAIN TYPES OF HEALTH CARE PROGRAMS ARE ADOPTED IN THE COMPANY'S KEY MARKETS.

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

deny coverage for treatments that may include the use of the Company's products.

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

Outside the United States, reimbursement systems vary significantly from country to country. In the majority of the international markets in which the company's products are sold, government-managed health care systems mandate the reimbursement rates and methods for medical devices and procedures. If adequate levels of reimbursement from third-party payors outside of the United States are not obtained, international sales of the Company's products may decline. Many foreign markets, including Canada, and some European and Asian countries, have tightened reimbursement rates. The ability of the Company to continue to sell certain of its products profitably in these markets may diminish if the government-managed health care systems continue to reduce reimbursement rates.

THE COMPANY'S BUSINESS MAY BE HARMED AS A RESULT OF LITIGATION.

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

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

A NATURAL OR MAN-MADE DISASTER COULD HAVE A MATERIAL ADVERSE EFFECT ON THE COMPANY'S BUSINESS.

The Company has nearly twenty manufacturing operations located throughout the world. However, a significant portion of the Company's products are produced at and shipped from its facility in Warsaw, Indiana. In the event that this facility were severely damaged or destroyed as a result of a natural or man-made disaster, the Company would be forced to shift production to its other facilities and/or rely on third-party manufacturers. Although the Company

believes that it is adequately insured, such an event could have a material adverse effect on the Company's business, results of operations and financial condition.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name, Age and Business Experience	Served as Executive Officer Since	Current Positi with the Comp
DANE A. MILLER, PH.D., 58 President and Chief Executive Officer of the Company. Director of the Company since 1977.	1977	President and Executive Offi Director of th
NILES L. NOBLITT, 53 Chairman of the Board of the Company. Director of the Company since 1977.	1978	Chairman of th and Director o
CHARLES E. NIEMIER, 48 Senior Vice President - International Operations of the Company. Director of the Company since 1987.	1984	Senior Vice Pr International and Director o
GARRY L. ENGLAND, 50 Senior Vice President - Warsaw Operations of the Company.	1987	Senior Vice Pr Warsaw Operati
DANIEL P. HANN, 49 Senior Vice President, General Counsel and Secretary of the Company. Director of the Company since 1989.	1989	Senior Vice Pr General Counse and Director o
JOEL P. PRATT, 50 Senior Vice President of the Company since June 1999 and President of Walter Lorenz Surgical, Inc. since January 2002; prior thereto, President of Arthrotek, Inc.	1990	Senior Vice Pr of the Company of Walter Lore
GREGORY D. HARTMAN, 47 Senior Vice President - Finance and Chief Financial Officer of the Company.	1991	Senior Vice Pr Finance and Ch Officer of the
JAMES W. HALLER, 47 Controller of the Company and Vice President - Finance of Biomet Orthopedics, Inc. since June 2001; prior thereto, Controller of the Company.	1991	Controller of and Vice Presi of Biomet Orth
JERRY L. FERGUSON, 63 Vice Chairman of the Board of the Company.	1994	Vice Chairman

Director of the Company since 1977.		and Director o
JAMES R. PASTENA, 53 Vice President of the Company and President of EBI, L.P.	1998	Vice President Company and Pr of EBI, L.P.

BART J. DOEDENS, 45 Vice President of the Company since June 2002 and President of Implant Innovations, Inc. since January 2001. Prior thereto, Vice President International Marketing and Sales of Implant Innovations, Inc.	2002	Vice President and President Innovations, I
ROGER P. VAN BROECK, 56 Vice President of the Company since July 2004 and President of Biomet Europe B.V. since March 2004. Prior thereto Chief Executive Officer of BioMer C.V. and Biomet Merck B.V.	2004	Vice President and President Europe B.V.

ITEM 2. PROPERTIES.

The following are the principal properties of the Company:

FACILITY	LOCATION	SQUARE FEET
Corporate headquarters of Biomet, Inc.; manufacturing, storage and research and development facility of Biomet Manufacturing Corp.; and distribution center and offices of Biomet Orthopedics, Inc.	Warsaw, Indiana	434,600
Administrative, manufacturing and distribution facility of EBI, L.P. and administrative offices of Electro-Biology, Inc.	(1) Parsippany, New Jersey(1) (2) Parsippany, New Jersey	63,000 209,700
Manufacturing facility of EBI, L.P.	Allendale, New Jersey	30,000
Manufacturing facility of EBI, L.P.	Marlow, Oklahoma	51,500
Administrative, manufacturing and distribution facility of Lorenz Surgical	Jacksonville, Florida	82,500
Office, manufacturing and distribution facility of Implant Innovations, Inc.	(1) Palm Beach Gardens, FL (2) Palm Beach Gardens, FL(2)	67,000 69,000
Office and manufacturing facilities of Arthrotek, Inc.	(1) Ontario, California (2) Redding, California	35,400 14,400
Manufacturing facility of Biomet Fair Lawn L.P.	Fair Lawn, New Jersey	40,000

Office and manufacturing facility of Electro-Biology, Inc.	Guaynabo, Puerto Rico	34,700
Office, manufacturing and distribution facilities of Interpore Spine Ltd.	(1) Irvine, California (2) Irvine, California	36,800 27,700
Office, manufacturing and warehouse facility of Biomet France Sarl	Valence, France	86,100
Office, manufacturing and warehouse facilities of Biomet Deutschland GmbH	Berlin, Germany	49,900
Office and research and development facility of Biomet Merck Biomaterials GmbH	Darmstadt, Germany	29,200
Administrative offices of Biomet Europe B.V. and office and warehouse facility of Biomet Nederland BV	Dordrecht, The Netherlands	37,700
Office and manufacturing facility of IQL	Valencia, Spain	69,600
Office, manufacturing and warehouse facilities of Biomet Cementing Technologies AB	Sjobo, Sweden	24,200
Manufacturing and administrative facilities of Biomet UK Ltd.	(1) Bridgend, South Wales (2) Swindon, England	105,200 53,400

In addition, the Company maintains more than 30 offices and warehouse facilities in various countries, including Canada, Europe, Asia Pacific and Latin America. The Company believes that all of its facilities are adequate, well-maintained and suitable for the development, manufacture, distribution and marketing of all its products.

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

(2) Includes 46,000 square feet of space in this facility that is leased to other parties.

ITEM 3. LEGAL PROCEEDINGS.

On October 3, 2002, a complaint was filed against the Company by Spinal Concepts, Inc. ("Spinal Concepts") alleging that certain U.S. patents owned by Spinal Concepts are infringed by the VueLock(R) Anterior Cervical Plate System manufactured by EBI, L.P. The Company has received an opinion of counsel that the patents cited by Spinal Concepts are not infringed by the VueLock(R) plate system manufactured by EBI. The complaint seeks, among other things, consequential and treble damages, a reasonable royalty and costs. The parties continue to engage in discovery. The Company continues to manufacture and sell the VueLock(R) Plate System. On June 28, 2004, the Company's subsidiary, Cross Medical Products Inc., filed suit against Spinal Concepts alleging that Spinal Concepts' InCompass(R), Pathfinder(TM) and SpeedLink(TM) products infringe U.S. Patent Nos. 5,466,237, 5,474,555 and 5,624,442, all of which are owned by Cross Medical. On July 14, 2004, the Company's subsidiary, EBI, L.P., also filed suit against Spinal Concepts alleging that an instrument sold with Spinal Concepts'

AcuFix(TM) cervical plate infringes U.S. Patent No. 6,599,290 owned by EBI. Management intends to vigorously defend and prosecute this matter. We are unable to determine the likelihood of a favorable outcome or the range of any potential loss. The Company has no insurance coverage for any potential loss in this matter.

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 does not anticipate that the adverse outcome of these matters will result in a material loss. 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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not Applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table shows the quarterly range of high and low sales prices for the Company's Common Shares as reported by The Nasdaq National Market for each of the three most recent fiscal years ended May 31. The Approximate number of shareholders of record as of July 21, 2004 was 6,319.

		High	Low
2004			
	Fourth	$41.67	$37.05
	Third	41.25	34.50
	Second	36.25	29.56
	First	30.95	27.26
2003			
	Fourth	$33.50	$26.74
	Third	30.50	26.42
	Second	32.00	25.69
	First	29.28	21.75
2002			
	Fourth	$32.68	$25.18
	Third	33.26	26.77
	Second	33.74	24.33
	First	34.36	25.06

The Company paid cash dividends of $0.15, $0.10 and $0.09 per share for fiscal years ending May 31, 2004, 2003 and 2002, respectively.

On July 1, 2004, the Company announced a cash dividend of $0.20, payable July 23, 2004, to shareholders of record at the close of business on July 16, 2004.

All market prices and dividend information have been adjusted to give retroactive effect to the three-for-two stock split announced July 9, 2001.

ISSUER PURCHASES OF EQUITY SECURITIES

As of May 31, 2004, the Company had two publicly-announced share repurchase programs outstanding. The first, announced July 2, 2003, approved the purchase of 2,000,000 shares to be automatically purchased in equal installments over a twelve-month period expiring July 1, 2004. The second, also announced July 2, 2003, approved the purchase of shares up to $100 million in open market or privately negotiated transactions. The second program expired on March 1, 2004 when the total dollar amount approved was purchased. The shares repurchased in the last quarter of fiscal 2004 and average price paid are as follow:

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS	MAXIMUM NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE Plans
MARCH 1-31	200,639	$ 38.34	200,639	504,000
APRIL 1-30	168,000	40.37	168,000	336,000
MAY 1-31	160,000	38.92	160,000	176,000
TOTAL	528,639	$ 39.16	528,639	176,000

ITEM 6. SELECTED FINANCIAL DATA.

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

	2004	2003	2002
Net sales	$ 1,615,253	$ 1,390,300	$ 1,191,902
Cost of sales	461,502	407,295	332,727
Gross profit	1,153,751	983,005	859,175
Selling, general and administrative expenses	595,234	495,391	437,731
Research and development expense	64,886	55,309	50,750
Other charges/(credits)	-	(5,800)	-
Operating income	493,631	438,105	370,694
Other income net	15,165	13,638	5,421*
Income before income taxes and minority interest	508,796	451,743	376,115
Provision for income taxes	176,098	156,961	127,665

Income before minority interest	332,698	294,782	248,450
Minority interest	7,071	8,081	8,710
Net income	$ 325,627	$ 286,701	$ 239,740
Earnings per share:			
Basic	1.27	$ 1.10	$ .89
Diluted	1.27	1.10	.88
Shares used in the computation of earnings per share:			
Basic	255,512	259,493	268,475
Diluted	257,204	261,394	271,245
Cash dividends paid per common share	$ .15	$ .10	$ .09

Balance Sheet Data
At May 31,
(in thousands)

	2004	2003	2002
Working capital	$ 802,467	$ 845,101	$ 715,245
Total assets	1,787,697	1,672,169	1,521,723
Shareholders' equity	1,448,210	1,286,134	1,176,479

- All share and per share data have been adjusted to give retroactive effect to the three-for-two stock splits declared on July 9, 2001 and July 6, 2000.

* Other income, net for fiscal 2002 was adversely by a $9 million charge as a result write-downs in marketable securities and other investments.

ITEM 7. MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS.

Overview

This discussion should be read in conjunction with the Company's consolidated financial statements and the corresponding notes contained herein. The Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that are subject to certain risk factors, as discussed earlier in this report under the caption Forward-Looking Statements and under the caption Business-Risk Factors on pp.12-14 of this report. The Company is engaged in the research, development, manufacturing and marketing of products used primarily by musculoskeletal medical specialists. The Company's primary products include reconstructive products, fixation devices, spinal products and other products. The Company has operations in over 30 countries and distributes its products in over 100 countries throughout the world. The solid growth experienced by the Company during fiscal year 2004 in both domestic and international markets is attributable to the Company's emphasis on technological advances through product line extensions and new product introductions. In addition, growth in the patient population (as a result of increases in both the size of the elderly population and the expansion of the traditional age bracket of musculoskeletal patients) has contributed to

this growth.

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

	Percentage of Net Sales			Percentage Increase (Decre	
	2004	2003	2002	2004 vs. 2003	20 vs.
Net sales	100.0%	100.0%	100.0%	16%	1
Cost of sales	28.5	29.3	27.9	13	2
Gross profit	71.5	70.7	72.1	17	1
Selling, general and administrative expenses	36.9	35.6	36.7	20	1
Research and development expense	4.0	4.0	4.3	17	
Other charges/(credits)	-	(0.4)	-	n/m	n/
Operating income	30.6	31.5	31.1	13	1
Other income, net	0.9	1.0	0.5	11	15
Income before income taxes and minority interest	31.5	32.5	31.6	13	2
Provision for income taxes	10.9	11.3	10.8	12	2
Income before minority interest	20.6	21 2	20.8	13	1
Minority interest	0.4	0.6	0.7	(12)	(
Net income	20.2%	20.6%	20.1%	14%	2

n/m - Not Meaningful

Fiscal 2004 Compared to Fiscal 2003*

Net Sales - Net sales increased 16% during the current fiscal year to $1,615,253,000 from $1,390,300,000 in 2003. Excluding the positive impact of foreign currency translations (4.6%), net sales increased 12%. Worldwide sales of reconstructive devices increased 21% to $1,052,865,000 in fiscal year 2004 compared to $867,602,000 in 2003. Factors contributing to this increase include currency translation (6%), pricing increases (3%) and incremental volume and product mix (12%). During the current year, worldwide bone cement sales increased 34%, extremities sales increased 28%, dental reconstructive product sales increased 24%, knee sales increased 20% and hip sales increased 15%.

Fixation sales increased 5% during fiscal 2004 to $248,821,000 from $237,117,000 in 2003. Factors contributing to this increase included currency translation (1%), pricing increases (1%) and incremental volume and product mix (3%). Worldwide sales of craniomaxillofacial products including bone substitutes increased 14%, electrical stimulation devices increased 5% and internal and external fixation devices each decreased 1%.

Spinal sales increased 11% to $159,927,000 in fiscal 2004 compared to $143,607,000 in 2003. Factors contributing to this increase included currency translation (1%), pricing increases (2%) and incremental volume and product mix (8%). Worldwide sales of spinal hardware including orthobiologics increased 24%, while spinal stimulation products increased 5%.

Sales of the Company's other products increased 8% to $153,640,000 in fiscal

2004 from $141,974,000 in 2003. Factors contributing to this increase included currency translation (2%), pricing increases (1%) and incremental volume and product mix (5%). Worldwide sales of arthroscopy products increased 10%, softgoods and bracing products increased 8% and general surgical instrumentation decreased 1 %.

Sales in the United States increased 12% to $1,079,532,000 during the current fiscal year compared to $966,638,000 last year. Components of this increase were incremental volume and product mix (8%) and positive pricing environment (4%). European sales increased 26% to

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

$418,328,000 during the current fiscal year from $332,053,000 in 2003. Components of this increase were positive currency translation (16%), incremental volume and product mix (9%) and positive pricing environment (1%). The Company anticipates foreign currency translations to positively influence sales during fiscal 2005, although at the current exchange rates, at a more moderate level compared to fiscal year 2004. Sales in Rest of World increased 28% to $117,393,000 this year from $91,609,000 last year. Components of this increase were positive currency translation (10%), incremental volume and product mix (17%) and positive pricing environment (1%). The Company commenced direct sales of its products in Japan during fiscal 2002 and continues to experience good product acceptance with growth at approximately 90% for the current fiscal year in local currency.

Gross Profit - The Company's gross profit increased 17% to $1,153,751,000 in fiscal 2004 from $983,005,000 in 2003. The gross profit margin increased to 71.5% of sales in fiscal 2004 compared to 70.7% in 2003. This improvement was realized through a 2% increase in selling prices and improved manufacturing efficiencies, offset by $2.5 million of additional expense as a result of an inventory step-up charge recognized in connection with the purchase of Merck's 50% interest in the Biomet Merck joint venture. This inventory step-up charge will continue to be recognized through the next four fiscal quarters.

Selling, General and Administrative Expenses - Selling, general and administrative expenses increased 20% in fiscal 2004 to $595,234,000 compared to $495,391,000 last year. This increase results from increased commission expense on higher sales (5%), a $25 million increase in bad debt expense (5%) and an increase in marketing and general and administrative expenses (10%). As a percent of sales, selling, general and administrative expenses were 36.9% in fiscal 2004 compared to 35.6% in 2003. During the fourth quarter, the Company reviewed its underlying assumptions in calculating reserves for uncollectible insurance receivables at its EBI subsidiary. As a result of this review, the Company revised its estimates of future collections of these insurance receivables and increased the balance in the reserves for uncollectible insurance receivables by $25 million. The additional reserve, which is based on historical analysis as well as management's best estimates of future collections, takes into account insurance underpayments, denial of payments and difficulties with billing and collecting co-payments from patients. Excluding this $25 million expense, selling, general and administrative expenses were 35.3% of sales in fiscal 2004. The main factor contributing to this decreased percentage is an overall slower growth rate for expenditures than for sales.

Research and Development Expense - Research and development expense increased 17% during the current year to $64,886,000 compared to $55,309,000 in 2003. This

increase reflects the $1.25 million in-process research and development write-off recognized during the fourth quarter related to the purchase of Merck's 50% interest in the Biomet Merck joint venture. The remaining increase reflects the Company's continued emphasis on new product development and enhancements and additions to its existing product lines and technologies. As a percent of sales, research and development expenses were 4.0% in both years.

Other charges/(credits) - On February 12,2003, the United States Court of Appeals for the Federal Circuit ruled that the Company did not owe post-judgment interest in connection with the damage award paid in the Tronzo case. As a result of this favorable ruling, the Company recorded a pre-tax gain of approximately $5.8 million during the third quarter of fiscal 2003. (See Note M in the Notes to Consolidated Financial Statements).

Operating Income - Operating income increased 13% during fiscal 2004 to $493,631,000 from $438,105,000 in 2003. U.S. operating income increased 12% to $443,862,000 from $394,641,000, reflecting solid sales growth for higher-margin product lines. European operating income increased 9% to $45,528,000 compared to $41,924,000 in 2003. This growth reflects solid sales growth in Europe, lower gross margins, higher selling expenses and improved foreign currency translation. Rest of World operating income increased 175% to $4,241,000 in fiscal 2004 from $1,540,000 in 2003. This increase is primarily a result of the Company's direct operations in Japan, which began in fiscal 2002, becoming profitable during the current year.

Other Income, Net - Other income, net increased during the current year to $15,165,000 from $13,638,000 in 2003. Other income increased 4% to $18,702,000 from $18,035,000, while interest expense decreased 20% to $3,537,000 from $4,397,000. During the fourth quarter of the year, the Company recorded a $3,362,000 gain on the disposition of an equity investment. Excluding this gain, other income decreased 15% mainly due to lower investment yields. To reduce the risk of exchange rate gains and losses on transfer of inventory from domestic sites to international sites, the Company has set up lines of credit in both Europe and Japan in local currencies. (See Note G in the Notes to Consolidated Financial Statements). These lines of credit are used solely to fund inventory purchases and acquisitions in those local currencies. Interest expense represents less than 1% of operating income. The decrease in interest expense in fiscal 2004 compared to 2003 was caused by a decrease in the balance outstanding and in interest rates. Other income for next year will be lower as a result of the cash used to fund the acquisition of Merck's 50% interest in the Biomet Merck joint venture. In addition, interest expense will be higher due to the line of credit the Company put in place and drew upon to fund the Interpore acquisition in June 2004. (See Note N in the Notes to Consolidated Financial Statements).

Provision for Income Taxes - The provision for income taxes increased to $176,098,000, or 34.6% of income before income taxes for fiscal 2004 compared to $156,961,000 or 34.7% of income before income taxes last year.

Net Income - The factors mentioned above resulted in a 14% increase in net income to $325,627,000 for fiscal 2004 from $286,701,000 in 2003. These factors and the reduction in the shares used in the computation of earnings per share through the Company's share repurchase programs resulted in a 15% increase in basic earnings per share for 2004 to $1.27 compared to $1.10 in 2003. The purchase of Merck's 50% interest in the Biomet Merck joint venture did not have a significant impact on net income, as the expense associated with the amortization of intangibles and reduced investment income were offset by a reduction in minority interest expense.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS (CONTINUED)

Fiscal 2003 Compared to Fiscal 2002

Net Sales - Net sales increased 17% during fiscal 2003 to $1,390,300,000 from $1,191,902,000 in 2002. Excluding the positive impact of foreign currency translation adjustments (3.2%), net sales increased 14%. Worldwide sales of reconstructive devices increased 20% to $867,602,000 in fiscal year 2003 compared to $721,004,000 in 2002. Contributing to this increase was approximately 4% due to currency translation, 3% from pricing and 13% from incremental volume and product mix. Worldwide hip and bone cement sales increased 23% during fiscal 2003, while knee sales increased 18%, extremities sales increased 16% and dental reconstructive product sales increased 19%.

Fixation sales increased 10% during fiscal 2003 to $237,117,000 from $215,544,000 in 2002. Contributing to this increase was approximately 1% due to currency translation, 1% from pricing and 8% from incremental volume and product mix. Worldwide sales of internal fixation devices increased 13%, external fixation devices increased 7%, electrical stimulation devices increased 6% and craniomaxillofacial products including bone substitutes increased 21%.

Spinal sales increased 15% to $143,607,000 in fiscal 2003 compared to $125,119,000 in 2002. Contributing to this increase was approximately 1 % due to currency translation, 2% from pricing and 12% from incremental volume and product mix. Worldwide sales of spinal stimulation products increased 13%, while spinal hardware including orthobiologics increased 18%.

Sales of the Company's other products increased 9% to $141,974,000 in fiscal 2003 from $130,235,000 in 2002. Contributing to this increase was approximately 2% due to currency translation, 1% from pricing and 6% from incremental volume and product mix. Worldwide sales of arthroscopy products increased 16%, softgoods and bracing products increased 8% and general surgical instrumentation increased 12%.

Sales in the United States increased 13% to $966,638,000 during fiscal 2003 compared to $856,375,000 in 2002. Components of this increase were incremental volume and product mix (9%) and positive pricing environment (4%). European sales increased 28% to $332,053,000 during fiscal 2003 from $260,420,000 in 2002. Components of this increase were positive currency translation (13%), incremental volume and product mix (13%) and positive pricing environment (2%). Sales in Rest of World increased 22% to $91,609,000 in fiscal 2003 from $75,107,000 in 2002. Components of this increase were incremental volume and product mix (18%) and positive pricing environment (4%). The Company commenced direct sales of its products in Japan during fiscal 2002 which accounted for about half of this increased product demand.

Gross Profit - The Company's gross profit increased 14% to $983,005,000 in fiscal 2003 from $859,175,000 in 2002. The gross profit margin decreased to 70.7% of sales in fiscal 2003 compared to 72.1 % in 2002. On a country-by-country basis, the Company improved gross margins in fiscal 2003 through a 3.6% increase in selling prices and improved manufacturing efficiencies, but due to the lower margins received on international sales and the higher growth rate on international sales compared to domestic sales, the consolidated gross margin decreased.

Selling, General and Administrative Expenses - Selling, general and administrative expenses increased 13% in fiscal 2003 to $495,391,000 compared to $437,731,000 in 2002. This increase is primarily a result of increased commission expense on higher sales compared to 2002. As a percent of sales, selling, general and administrative expenses were 35.6% in fiscal 2003 compared

to 36.7% in 2002. Factors contributing to this decrease include eliminating the amortization of goodwill (0.6%) and an overall slower growth rate for expenditures (0.2%) partially offset by increased liability insurance premiums (0.1%).

Other charges/(credits) - On February 12, 2003, the United States Court of Appeals for the Federal Circuit ruled that the Company did not owe post-judgment interest in connection with the damage award paid in the Tronzo case. As a result of this favorable ruling, the Company recorded a pre-tax gain of approximately $5.8 million during the third quarter (See Note M in the Notes to Consolidated Financial Statements).

Research and Development Expense - Research and development expense increased 9% during fiscal 2003 to $55,309,000 compared to $50,750,000 in 2002. This increase reflects the Company's continued emphasis on new product development and enhancements and additions to existing product lines and technologies. As a percent of sales, research and development expenses were 4.0% in fiscal 2003 compared to 4.3% in 2002.

Operating Income - Operating income increased 18% during fiscal 2003 to $438,105,000 from $370,694,000 in 2002. U.S. operating income increased 21 % to $394,641,000 from $326,906,000, reflecting solid sales growth for higher-margin product lines. European operating income increased 7% during fiscal 2003 to $41,924,000 compared to $39,152,000 in 2002. This growth reflects solid sales growth in Europe, lower gross margins, higher selling expenses and improved foreign currency translation. Rest of World operating income decreased to $1,540,000 in fiscal 2003 from $4,636,000 in 2002 due to start up expenses associated with establishing direct operations in Japan and Brazil for the orthopedic and dental reconstructive businesses, respectively.

Other Income, Net - Other income, net increased during fiscal 2003 to $13,638,000 from $5,421,000 in 2002. During the fourth quarter of 2002, the Company recorded a pre-tax charge of $9 million as a result of equity write-downs in Selective Genetics, Inc. and other marketable securities. The loss in value of these investments was considered other than temporary. Excluding these write-downs, other income, net increased 35% as a result of higher cash and investment balances, partially offset by lower investment yields. To reduce the risk of exchange rate gains and losses on transfer of inventory from domestic sites to international sites, the Company has set up lines of credit in both Europe and Japan in local currencies. (See Note G in the Notes to Consolidated Financial Statements). These lines of credit are used solely to fund inventory purchases and acquisitions in those local currencies. Interest expense increased 30% to $4,397,000 in fiscal 2003 compared to $3,380,000 in 2002 and represents approximately 1% of operating income. The increase in interest expense in fiscal 2003 compared to 2002 was primarily caused by an increase in the balance outstanding.

Provision for Income Taxes - The provision for income taxes increased to $156,961,000, or 34.7% of income before income taxes for fiscal 2003 compared to $127,665,000 or 33.9% of income before income taxes in 2002. This increase was due to income growing faster in countries with higher tax rates, changes in the U.S. tax code which, over time, reduce the historical U.S. tax benefits from operating in Puerto Rico and various state tax rate increases.

Net Income - The factors mentioned above resulted in a 20% increase in net

income to $286,701,000 for fiscal 2003 from $239,740,000 in 2002. These factors and the reduction in the shares used in the computation of earnings per share through the Company's share repurchase programs resulted in a 24% increase in basic earnings per share for 2003 to $1.10 compared to $0.89 in 2002.

Liquidity & Capital Resources

The Company's cash and investments decreased to $235,612,000 at May 31, 2004, from $418,594,000 at May 31, 2003. Net cash from operating activities was $386,089,000 in fiscal 2004 compared to $310,277,000 in 2003. The principal sources of cash from operating activities were net income of $325,627,000 and non-cash charges of depreciation and amortization of $59,468,000. The principal uses of cash include increases in accounts and notes receivable of $29,955,000. Accounts receivable balances continue to increase as the Company continues to expand its direct selling operations in countries where it traditionally sold to distributors, and as it experiences sales growth.

Cash flows used in investing activities were $253,481,000 in fiscal 2004 compared to $19,697,000 in 2003. The primary uses of cash for investing activities were purchases of investments and the acquisition of Merck's 50% interest in the Biomel Merck joint venture, offset by sales and maturities of investments, and capital expenditures. Major capital expenditures for the year were expansion of manufacturing facilities in New Jersey and Europe.

Cash flows used in financing activities were $194,607,000 in fiscal 2004 compared to $222,808,000 in 2003. The primary uses of funds during the current year were the share repurchase programs, in which $172,724,000 was used to purchase 5,148,000 Common Shares of the Company and a cash dividend of $0.15 per share paid on July 18, 2003 to shareholders of record on July 11, 2003. The source of funds from financing activities was proceeds on the exercise of stock options. On July 1, 2004, the Company's Board of Directors announced a cash dividend of $0.20 per share payable on July 23, 2004 to shareholders of record at the close of business on July 16, 2004. Additionally, the Board of Directors authorized the purchase of up to an additional $100 million and 2,500,000 shares of the outstanding Common Shares of the Company in two separate repurchase programs. In connection with the Interpore acquisition in June 2004 (See Note N of the Notes to Consolidated Financial Statements) the Company entered into a 36 month revolving credit facility in the amount of $200 million.

The Company maintains its cash and investments in money market funds, certificates of deposit, corporate bonds, debt instruments, mortgage-backed securities and equity securities. The Company's investments are generally liquid and investment grade. The Company is exposed to interest rate risk on its corporate bonds, debt instruments, fixed rate preferred equity securities and mortgage-backed securities. The Company anticipates that its use of cash for capital expenditures in fiscal 2005 will be at least as high as fiscal years 2004 and 2003. The Company is currently expanding its EBI manufacturing site, as well as its Japanese and European operations. The Company intends to continue to pursue strategic acquisition candidates. The Company is confident about the growth prospects in its markets and intends to invest in an effort to improve its worldwide market position. The Company expects to spend in excess of $250 million over the next two fiscal years for capital expenditures and research and development costs in an effort to develop products and technologies that further enhance musculoskeletal procedures. Funding of these and other activities is expected to come from currently available funds and cash flows generated from future operations. The Company has no off-balance sheet financial arrangements and no material long-term contractual financial obligations.

Critical Accounting Policies and Estimates

Management's discussion and analysis of its financial position and results of operations are based upon the Company's consolidated financial statements, which

have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Company's significant accounting policies are discussed in Note B of the Notes to Consolidated Financial