BIOMET INC
Form 10-K/A
May 29, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(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, 2006.

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission file No. 0-12515.

(Exact name of registrant as specified in its charter)

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

(574) 267-6639

(Registrant s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on which registered
Common Shares	**The Nasdaq Stock Market**

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 ¨ No x

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/A or any amendment to this Form 10-K/A. ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ¨ No x

The aggregate market value of the Common Shares held by non-affiliates of the registrant, based on the closing price of the Common Shares on November 30, 2005, as reported by The Nasdaq Stock Market, was approximately $8,037,326,823. As of July 13, 2006, there were 244,831,097 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 2006 Annual Meeting of Shareholders of the Registrant filed with the Securities and Exchange Commission on August 15, 2006	Part III

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EXPLANATORY NOTE

As described in further detail below, Biomet, Inc. (*Biomet* or the *Company*) is amending its annual report on Form 10-K for the fiscal year ended May 31, 2006 (the *Original Filing*). The Company also expects to separately amend its quarterly report on Form 10-Q for the period ended August 31, 2006 and separately file its reports on Form 10-Q for the periods ended November 30, 2006 and February 28, 2007. The Company has not amended and does not intend to amend any of its previously filed annual reports on Form 10-K or quarterly reports on Form 10-Q for the periods affected by the restatement other than this amended annual report on Form 10-K/A and the Company s quarterly report on Form 10-Q for the period ended August 31, 2006. Accordingly, the Company s previously issued financial statements, earnings press releases and similar communications affected by the restatement and any related reports of its independent registered public accounting firm should not be relied upon.

The Company s decision to restate its financial results was based on the results of an independent investigation of the Company s stock option grants for the period from March 1996 through May 2006 by a special committee (the *Special Committee*) formed by the Company s Board of Directors (the *Board*) following the publication of an analyst report suggesting that certain historical stock option grants took place on dates where the Company s stock price was trading at relatively low prices and the filing of two shareholder derivative lawsuits alleging improper backdating of stock options. The Special Committee retained independent counsel to advise it in connection with and to conduct its investigation. Counsel to the Special Committee also hired independent accountants to assist in the investigation.

On December 18, 2006 and March 30, 2007, the Company announced preliminary reports from the Special Committee presented by counsel to the Special Committee and the independent accountants retained by counsel to the Special Committee. Based upon an analysis of these reports and relevant accounting literature, including Staff Accounting Bulletin No. 99 Materiality, the Company s Audit Committee determined on March 30, 2007 that the Company should amend its annual report on Form 10-K for the fiscal year ended May 31, 2006 and quarterly report on Form 10-Q for the period ended August 31, 2006 to reflect the restatement of the Company s consolidated financial statements (fiscal years ended May 31, 2006, 2005 and 2004 and periods ended August 31, 2006 and 2005) and related disclosures reflected therein. On May 25, 2007, the Board received and discussed the following updated findings contained in the Special Committee s final report.

The Special Committee s Findings

The Special Committee s investigation was based upon the review of an extensive collection of physical and electronic documents, interviews of more than two dozen individuals, and analysis of approximately 17,000 grants to purchase approximately 17,000,000 Biomet common shares on over 500 different grant dates over the 11-year period from March 1996 through May 2006. The Special Committee made the following findings:

The Company s written stock option plans were treated by Company management, and the stock option committee, as formalities concerning the manner in which individual stock option grants were to be approved, resulting in a failure to abide by the terms of the plans;

The Company failed to receive appropriate legal or accounting advice from its former General Counsel and Chief Financial Officer related to its stock option program and, as a result, legal and accounting rules were not followed;

The Company failed to put in place and implement internal controls to manage its stock option program, including by failing to devote sufficient resources to the administration of its stock option program;

The Company failed to prepare and maintain appropriate books and records documenting the administration of its stock option program, specifically with regard to the approval of individual stock option grants;

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Most stock options issued by Biomet were dated on dates other than the date of grant of those options, as that date was defined by the stock option plans;

The Company engaged in purposeful opportunistic dating (and, therefore, pricing) of stock options; and

As a result of all of the above, certain of the Company s proxy statements related to the grant of stock options, particularly to executive officers and non-employee directors, including certain information incorporated by reference in Part III of this amended annual report on Form 10-K/A, were not accurate.

The Special Committee also reported that members of senior management were aware of the practice of dating options on a date other than the date on which final action regarding the option occurred, and that certain members of senior management, namely the Company s Chief Financial Officer and General Counsel during the period, were or should have been aware of certain accounting and legal ramifications, respectively, of issuing an option with an exercise price lower than the fair market value on the date of issuance. The Special Committee also concluded that, based upon the information gathered and reviewed by the Special Committee, the misdating and mispricing of stock option awards was driven by a desire to make the options more valuable to the employees who received the awards and not to enrich those who managed the stock option program, though the Company s practice also did inure to the benefit of those who managed the stock option program.

The Special Committee s Recommended Remedial Measures

In addition to its findings above, the Special Committee s report contains recommendations concerning the Company s processes relating to the granting, administration and accounting of stock options. On May 25, 2007, the Board received and discussed the remedial measures suggested by the Special Committee which included:

The procedures for stock option approval should be formalized in a manner consistent with the terms of the Company s underlying stock option plans and records of individual stock option awards should be maintained using commercially available software by experienced and qualified personnel;

The Board should commit to exercising additional oversight of Company management and conduct a thorough review of the Company s governance and internal control practices;

Certain personnel should be removed from the administration of the Company s stock option program and financial reporting function or provided additional oversight and training;

Certain individuals who were directors or executive officers of the Company at the time they received misdated or mispriced awards should disgorge any benefit derived from the exercise of such misdated or mispriced awards and increase the exercise price for those unexercised misdated or mispriced awards; and

The Company should take steps to address the tax consequences to employees of the Company s historical stock option granting practices.

The Board of Directors continues to thoughtfully consider these recommendations and has either implemented or is in the process of implementing several of the Special Committee s recommendations. For example, in response to the Special Committee s preliminary report announced on March 30, 2007, all current members of the Board agreed that, with respect to misdated or mispriced stock option awards to the current directors on or after January 1, 1996 which had not yet been exercised, the exercise price of such unexercised stock option awards would be increased to the fair market value of the Company s common shares on the measurement date applicable to such award. Furthermore, the current members of the Board agreed that, with respect to misdated or mispriced stock option awards to the current directors on or after January 1, 1996 which had previously been exercised, such directors would at a future date remit to the Company an amount equal to the excess, if any, of the fair market value of the Company s common shares on the applicable measurement date, as described below for such award, over the exercise price of such award. Over the 11-year period of the investigation, the collective difference between the exercise price at which

options awarded to non-employee directors should have been issued less the exercise price at which such options were improperly issued was less than $1 million in the aggregate and did not exceed $150,000 for any one director.

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Furthermore, in light of the Special Committee s findings, on March 30, 2007 Gregory D. Hartman retired as Senior Vice President Finance, Chief Financial Officer and Treasurer, and Daniel P. Hann retired as Executive Vice President of Administration and a Director of the Company. In order to ensure a smooth transition of business operations and financial matters, Messrs. Hartman and Hann will serve as consultants to the Company pursuant to severance and consulting agreements with the Company dated as of March 30, 2007 (the *Retirement and Consulting Agreements*). Pursuant to the terms of these agreements Messrs. Hartman and Hann have agreed that, with respect to misdated or mispriced stock option awards granted to Messrs. Hartman or Hann which have vested but had not yet been exercised, the exercise price of such unexercised stock option awards will be increased to the fair market value of the Company s common shares on the measurement date applicable to such award. Furthermore, Messrs. Hartman and Hann have agreed that, with respect to misdated or mispriced stock option awards which had previously been exercised, Messrs. Hartman and Hann would at a future date remit to the Company an amount equal to the excess, if any, of the fair market value of the Company s common shares on the measurement date for such award over the exercise price of such award. Over the 11-year period of the investigation, the collective difference between the exercise price at which options awarded to Section 16 officers should have been issued less the exercise price at which such options were improperly issued was less than $3 million in the aggregate and did not exceed $400,000 for any one Section 16 officer. Lastly, except for 75,000 options granted to Mr. Hann in March 2006, Messrs. Hartman and Hann have each agreed to immediately terminate and forfeit any unvested stock option awards and that no options will be accelerated as a result of their retirement. As a result Messrs. Hann and Hartman have agreed to immediately terminate and forfeit approximately 164,000 and 89,000 unvested stock option awards respectively. Additional details of Messrs. Hartman s and Hann s Retirement and Consulting agreements are provided in the Company s April 2, 2007 and April 23, 2007 current reports on Form 8-K. On February 26, 2007, the Company announced the appointment of Jeffrey R. Binder as President and Chief Executive Officer and a member of the Company s Board of Directors. On March 30, 2007, the Company announced the appointment of J. Pat Richardson as Vice President Finance and Interim Chief Financial Officer and Treasurer, and on May 14, 2007 the Company announced the appointment of Daniel P. Florin as Senior Vice President and Chief Financial Officer to become effective June 5, 2007.

In addition, the Company s current Chief Executive Officer and Interim Chief Financial Officer have met with the key personnel throughout the Company who have significant roles in the establishment and maintenance of internal controls over financial reporting and disclosure controls and procedures to emphasize the Company s commitment to enhancing the Company s internal controls over financial reporting and disclosure controls and procedures. The Company s Human Resources, Legal and Finance departments either have or will, prior to the Company s resumption of the issuance of stock option awards, be provided additional training and education designed to ensure that relevant individuals involved in the administration of stock option grants understand the terms of the Company s equity-based award plans and the relevant accounting guidance for stock options and other share-based payments. In addition, the Company s Human Resources, Legal and Finance departments will develop, prior to the Company s resumption of the issuance of stock option awards, formal, documented stock option grant procedures and practices to ensure systematic approval and execution of stock option grants and the proper recording of such grants in the Company s stock administration records and financial statements. Lastly, although the Company is not currently granting stock option awards and has not granted any stock option awards since December 2006, the Company has either implemented or is in the process of implementing additional changes to its internal controls over financial reporting noted in Item 9A. Controls and Procedures of this amended annual report on Form 10-K/A.

Finally, the Special Committee concluded that pursuit of the claims made in the Biomet derivative litigation related to stock option grants would not be in the best interests of the Company at this time. For a further description of the Special Committee s considerations in arriving at this conclusion see the Company s current report on Form 8-K filed with the Securities and Exchange Commission (the *SEC*) on May 25, 2007.

The Company has advised the Midwest Regional Office of the SEC of the Special Committee s findings.

Accounting for Stock Option Awards

APB No. 25 Awards. The accounting guidance for determining share-based compensation expense applicable to Salaried Employee Awards, Officer Awards, Director Awards, New Hire, Promotional and

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Employee Anniversary Awards, each as defined below (collectively *APB No. 25 Awards*) is Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, or *APB No. 25*. APB No. 25 defines the measurement date of a stock option award as the first date on which are known both (1) the number of shares that an individual employee is entitled to receive and (2) the option or purchase price. Under APB No. 25 a measurement date is required to be selected for each stock option award and compensation expense must be recognized ratably over the vesting period of the option award for the excess, if any, of the quoted market price of the stock on the measurement date over the stated exercise price of the award. In many instances the Company selected option grant dates and corresponding option exercise prices with respect to APB No. 25 Awards that were before the date that both the number of shares that an individual was entitled to receive and the exercise price for the award had been finalized. The Company also deemed the stated grant date to be the measurement date resulting in no compensation expense for those options in the financial statements as previously reported. For purposes of establishing the measurement date for accounting purposes, the practice of using the stated grant date rather than the date that the number of shares that an individual is entitled to receive and exercise price were finalized resulted in incorrect measurement dates and financial statement errors. In connection with the restatement reflected in this amended annual report on Form 10-K/A, the Company has selected alternative measurement dates for APB No. 25 Awards to correct for these errors.

Non-APB No. 25 Awards. The accounting guidance for determining share-based expense applicable to Distributor Awards (as defined below) is based on Emerging Issues Task Force 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquisition, or in Conjunction with Selling, Goods or Services, or *EITF 96-18*. Under EITF 96-18, additional share-based expense is evaluated based on the fair value of the Distributor Award at the date of grant and then remeasured at each subsequent reporting period over the vesting period of the award. Prior to fiscal 2003, the Company did not record expense for stock options granted to non-employee distributors. In fiscal 2003 and subsequently, the Company began recording expense based on EITF 96-18. The Company has calculated (or recalculated in the case of fiscal years subsequent to 2002) expense for awards to non-employee distributors in accordance with EITF 96-18 for the 11-year period of the investigation.

Categories of Stock Option Awards

The Company has categorized the approximately 17,000 stock option awards to purchase approximately 17,000,000 Biomet common shares during the 11-year period in question based upon the recipient of the award and the process by which the award was finalized. As result of the deficiencies described above under the heading The Special Committee s Findings, the Company used incorrect measurement dates for approximately eighty percent of these awards resulting in errors in the Company s financial statements. In connection with this amended annual report on Form 10-K/A, the Company has examined the best evidence available, including but not limited to, electronic and physical documents related to the awards and interviews with individuals involved in the administration of the Company s stock option program during the 11-year period, in order to determine the appropriate measurement dates and correct these errors.

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The following table summarizes the five categories of stock options awards during the 11-year period in question (Salaried Employee Awards, Officer Awards, Director Awards, and New Hire, Promotional and Employee Anniversary Awards, and Distributor Awards), the total number of shares granted during the 11-year period, and the additional compensation expense or additional distributor stock option expense related to those awards as the case may be (in thousands):

Type of Awards	*Number of Shares Underlying Awards*	*Percentage of Total Number of Shares Underlying Awards*	**Pre-Tax Additional Expense**
APB No. 25 Awards (1) (2):			
Salaried Employee Awards	12,707	75%	$ 43,179
Officer Awards	1,268	7	2,684
Director Awards	174	1	633
New Hire, Promotional and Employee Anniversary Awards	1,939	11	3,571
Total (prior to consideration of vesting and forfeitures)	16,088	94	50,067
Less forfeitures and amounts unamortized at May 31, 2006			(16,938)
Total (additional expense through May 31, 2006)			33,129
Non-APB No. 25 Awards (3):			
Distributor Awards (additional expense through May 31, 2006)	866	6	5,091
Total Pre-Tax Additional Expense for APB No. 25 Awards and Non-APB No. 25 Awards (after consideration of vesting and forfeitures through May 31, 2006) (4)	16,954	100%	$ 38,220

(1) Under APB No. 25, additional share-based compensation expense was calculated above as the excess of fair market value of the Company s common shares on the applicable measurement date less the exercise price of the stock option award multiplied by the number of shares subject to the option award in question. Share-based compensation expense is recognized ratably over the vesting period of each option award, a period which is typically between 3 and 8 years with respect to the stock option awards in question.

(2) In light of the judgment involved in selecting alternative measurement dates, a sensitivity analysis was completed which assessed the impact on pre-tax additional share-based compensation expense of using different alternative measurement dates. See Compensation Expense and Sensitivity Analysis.

(3) Measurement of distributor stock options expense for Distributor Awards is based on EITF 96-18 as described in more detail below. Under EITF 96-18, additional share-based expense is measured above based on the fair value of the Distributor Award at the date of grant and then remeasured at each subsequent reporting period over the vesting period of the award.

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(4) Total Pre-Tax Additional Expense for APB No. 25 Awards and Non-APB No. 25 Awards (after consideration of vesting and forfeitures) is the sum of the pre-tax additional share-based expense for APB No. 25 Awards ($33,129) and pre-tax additional distributor stock options expense under Non-APB No. 25 Awards ($5,091), in each case after consideration of vesting and forfeitures through May 31, 2006. This amount is the additional share-based expense reflected in the Company s restated consolidated financial statements included elsewhere in this amended annual report on Form 10-K/A.

Salaried Employee Awards. Salaried Employee Awards were typically made to a broad base of employees of the Company and its subsidiaries on an annual basis as part of an extensive process that required several months to complete. Pursuant to authority granted under the 1992 Employee and Non-Employee Director Stock Option Plan (the *1992 Plan*) and the 1998 Qualified and Non-Qualified Stock Option Plan, as amended June 24, 2005 (the *1998 Plan*), the Board s Compensation and Stock Option Committee was delegated authority to administer the Company s stock option program. On an annual basis the Compensation and Stock Option Committee typically approved a pool of stock option awards, without specification of exercise price terms, which were allocated to each business unit within the Company. The stock option awards appropriated to each business unit were further allocated to individual employees within the business unit using discretionary criteria by members of management within each business unit (the *business unit head*). On an annual basis the business unit head communicated his or her allocation to the chief financial officer or the stock option administrator and a notification was delivered to the stock option recipient advising the employee of their award. The exercise prices for Salaried Employee Awards during the 11-year period in question were apparently set in several ways, including, among others, using the lowest price of the month or quarter or the date the allocation was received by the chief financial officer or stock option administrator. The alternative measurement dates reflected in this amended annual report on Form 10-K/A with respect to Salaried Employee Awards was determined based on the earliest date when evidence existed demonstrating that the individual share allocations were approved and the exercise prices were known. This determination required the use of judgment by the Company, other than with respect to stock option awards granted to employee sales personnel that were based on the achievement of pre-determined sales goals. For awards to employee sales personnel, representing stock options to purchase approximately 293,000 Biomet common shares, the Company determined that the alternative measurement date should be based on the last trading day of the period when the sales goal was achieved.

Officer Awards. Officer Awards were made annually to the Company s officers during the 11-year period in question. No stock options were awarded to Niles L. Noblitt, the Chairman of the Board, or Dane A. Miller, the Company s former Chief Executive Officer, during the 11-year period in question. Of the stock options awarded to officers during the 11-year period, stock options to purchase 280,000 Biomet common shares had appropriate measurement dates while the remaining stock options to purchase 988,000 Biomet common shares had inappropriate measurement dates. For those awards with inappropriate measurement dates, the alternative measurement date reflected in this amended annual report on Form 10-K/A with respect to the Officer Awards was determined in a substantially similar manner as the Salaried Employee Awards.

Director Awards. From 1996 through February 1999, each non-employee director was granted an option to purchase 5,000 Biomet common shares every three years during his or her service on the Board under the 1992 Plan. From March 1999 through 2006, each non-employee director was granted an option to purchase 2,000 Biomet common shares annually under the 1998 Plan. For those awards with inappropriate measurement dates, the alternative measurement date reflected in this amended annual report on Form 10-K/A with respect to the Director Awards was determined in a substantially similar manner as the Salaried Employee Awards.

New Hire, Promotional and Employee Anniversary Awards. New hire, promotional and employee anniversary awards were awarded to employees upon their date of commencement of employment with the

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Company, achievement of a significant promotion within the Company or the employee s hire date anniversary. The exercise prices for these awards during the 11-year period were set in several different ways including the date of hire, promotion or anniversary; the lowest price of the month or quarter in which the hire, promotion or anniversary occurred; the end of month price; or other selected dates. Generally, the Company determined the alternative measurement date for these awards based on the actual dates of hire, promotion or anniversary. These alternative measurement dates were used due to the relatively small number of shares underlying New Hire, Promotional and Anniversary Awards in total and per grant, as well as the difficulty in establishing alternative measurement dates with respect to New Hire, Promotional and Anniversary Awards. For a discussion of the sensitivity analysis performed by the Company in connection with this amended annual report on Form 10-K/A see Compensation Expense and Sensitivity Analysis below. The Company s sensitivity analysis indicates that the use of different alternative measurement dates would not have a quantitatively material impact to the incremental additional share-based compensation expense recorded by the Company in any prior period financial statements reflected in this amended annual report on Form 10-K/A.

Distributor Awards. Distributor Awards were made periodically to the Company s non-employee distributors. There were options to purchase 866,000 Biomet common shares awarded to non-employee distributors during the 11-year period of the investigation. Prior to fiscal 2003, the Company did not record expense for stock options granted to non-employee distributors. In fiscal 2003 and subsequently, the Company began recording expense based on EITF 96-18, See Note A to the financial statements. The Company has calculated (or recalculated in the case of fiscal years subsequent to 2002) expense for awards to non-employee distributors in accordance with EITF 96-18 for the 11-year period of the investigation. EITF 96-18 requires the Company to measure the fair value of the Distributor Awards at the date of grant and then remeasure fair value at each subsequent reporting period over the vesting period of the award.

Payroll and Withholding Taxes, Penalties and Interest

The payroll and withholding tax treatment of a stock option granted to a U.S. employee or other service provider depends on whether the stock option qualifies as an Incentive Stock Option (*ISO*) or a Non-Qualified Stock Option (*NQO*). An ISO is a stock option that satisfies certain requirements set forth in Internal Revenue Code Section 422, including a requirement that the exercise price of the stock option may not be less than the fair market value of the underlying shares on the date of grant. An NQO is any stock option that does not satisfy the requirements to be treated as an ISO.

Upon exercise of an NQO, we are required, to the extent applicable, to (1) withhold the optionholder s share of social security, Medicare and other employment taxes (which we collectively refer to as payroll taxes) and any federal, state or local income tax and (2) pay Biomet s share of payroll taxes. However, upon exercise of an ISO, we are not required to withhold any income taxes nor are we required to withhold or pay any payroll taxes.

Our stock options granted during the 11-year period were generally intended to qualify as ISOs and accordingly, except for federal withholding in certain instances with respect to same day sales, we did not withhold federal income taxes, state income taxes or the employee s share of social security, Medicare and other employment taxes upon exercise of these options, nor did we pay the employer s share of social security, Medicare and other employment taxes. However, as described above, approximately eighty percent of our stock options granted during this period were subject to revised measurement dates. Any stock option that was granted with an exercise price less than the fair market value of the underlying shares on the revised measurement date would not have qualified as an ISO and should have been treated as an NQO for payroll and withholding tax purposes. In these cases, we have accrued payroll and withholding taxes, penalties and interest for stock options and included these amounts in the restated financial statements.

In preparing the restatement reflected in this amended annual report on Form 10-K/A we have assumed a normal statute of limitations on the assessment of payroll and withholding taxes. Thus, we have reversed expense recorded in prior periods and as a result recognized a benefit in the period in which the statute of limitations for the respective option exercise expires in an aggregate amount of $14.3 million. However, the statute of

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limitations may not apply in the case of a false or fraudulent return with the intent to evade tax or in the case of a willful attempt in any manner to defeat or evade any employment or withholding tax. If the statute of limitations were determined not to have expired the benefit which we have recognized could be deemed to be payable. The Company believes there was no intent to evade paying taxes. See Risk Factors Related to the Stock Option Investigation in Item 1A of Part I of this amended annual report on Form 10-K/A.

In most instances, ISOs which were exercised as a same-day sale were properly treated as a disqualifying disposition and the income was reported on the individuals Form W-2. In these situations, we accrued payroll taxes, penalties and interest but did not accrue federal or state income taxes as the income from the disqualifying disposition of stock options was included on the employee s Form W-2 and applicable state and federal income taxes were paid by the employee. For certain ISOs which subsequently converted to a NQO stock option, we accrued federal and state income taxes, payroll taxes, penalties and interest at the applicable rates, if the income was not reported on the individuals Form W-2.

The combination of taxes, penalties and interest resulted in a net compensation charge of $21.4 million for fiscal years 1996 through 2006.

We believe that the unpaid employee portion of taxes represents joint and several obligations of both us and our employees. However, the change of status of employee options from ISO to NQO was a result of flaws in our stock option granting practices as discussed above. We believe that the employees would likely have a valid claim against us in the event we attempted to recover a portion of the additional taxes, penalties and interest from them. Accordingly, we believe it is appropriate to accrue both the employee and the employer portions of all taxes. In addition, we believe such additional taxes, penalties and interest should be recorded in the respective years in which the underlying in-the-money options were exercised.

Additional Share-Based Compensation Expense, Distributor Stock Options Expense and Payroll and Withholdings Taxes

As a result of the findings of the Special Committee, management has concluded that incorrect measurement dates were used for financial accounting purposes for approximately eighty percent of the stock option awards during the 11-year period reflected below. The effect of recognizing additional share-based compensation expense, distributor stock options expense and payroll and withholding taxes during the 11-year period is as follows (in thousands):

	Additional Share-Based Compensation Expense (Pre-Tax)(1)	Additional Distributor Stock Options Expense (Pre-Tax)(2)	Additional Payroll and Withholding Taxes (Pre-Tax)	Total Additional Expense (Pre-Tax)	Tax Effect	After-Tax Expense
1996	$ 26	$ 132	$	$ 158	$ 58	$ 100
1997	516	305	7	828	269	559
1998	1,071	725	335	2,131	686	1,445
1999	2,068	1,121	1,020	4,209	1,415	2,794
2000	4,371	1,226	1,424	7,021	2,312	4,709
2001	5,517	1,079	6,023	12,619	4,030	8,589
2002	5,556	1,307	4,348	11,211	3,808	7,403
2003	4,887	124	4,921	9,932	3,320	6,612
Total 1996-2003 effect (3)	24,013	6,019	18,078	48,109	15,898	32,211
2004	3,875	(413)	4,617	8,079	2,776	5,303
2005	2,792	(51)	490	3,231	988	2,243
2006	2,449	(464)	(1,779)	206	(30)	236
Total 2004-2006 effect (3)	9,116	(928)	3,328	11,516	3,734	7,782
Total effect (3)	$ 33,129	$ 5,091	$ 21,406	$ 59,626	$ 19,632	$ 39,994

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(1) Under APB No. 25, additional share-based compensation expense was calculated above as the excess of the fair market value of the Company s common shares on the applicable measurement date less the exercise price of the stock option award multiplied by the number of shares subject to the stock option award in question. Share-based compensation expense is recognized ratably over the vesting period of each stock option award, a period which was typically between 3 and 8 years with respect to the stock option awards in question.

(2) Under EITF 96-18, additional distributor stock options expense is measured above based on the fair value of the Distributor Award at the date of grant and then remeasured at each subsequent reporting period over the vesting period of the award.

(3) Amounts in table may not foot or cross-foot due to rounding.

Compensation Expense and Sensitivity Analysis

The Company s selection of the alternative measurement dates for each of the stock option awards discussed under the heading Categories of Stock Option Awards was based upon the best evidence available to the Company. Due to a lack of documentation and process surrounding the Company s administration of its stock option plans, the Company s estimate of the appropriate measurement date was based on grant documentation such as e-mails, spreadsheets listing the employees and the number of shares to be granted to such employees, and other correspondence or documentation related to the award that provided the best evidence that the terms of the award had been fixed with finality. In some instances that documentation did not clearly identify with certainty the date that the terms of the award were fixed with finality but did identify a range of potential dates. In those cases the Company exercised judgment in selecting the most appropriate measurement date.

As described above, judgment was exercised by the Company in determining the appropriate alternative measurement date for each of the stock option awards in question. The use of a different alternative measurement date than that used by the Company could have resulted in different share-based compensation expense than those recorded in the Company s restated financial statements and included in this amended annual report on Form 10-K/A. The Company performed sensitivity analysis of the effect on share-based compensation expense of using different approaches for selecting alternative measurement dates than the approach used to record share-based compensation expense in the Company s restated financial statements and included in this amended annual report on Form 10-K/A.

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Presented below is a summary that illustrates the impact of different approaches of measuring additional share-based compensation expense from fiscal 1996 to 2006. The summary below excludes distributor stock options expense arising from Distributor Awards (as these awards are accounted for under EITF 96-18) and is presented after considering forfeitures and vesting (dollars in thousands).

Year	Additional Share-Based Compensation Expense (Pre-Tax) (1)	Error as a % of Pre-Tax Income (1)	Sensitivity Analysis Additional Share-Based Compensation Using End Date Alternative (Pre-Tax) (2)	Error as a % of Pre-Tax Income (2)	Sensitivity Analysis Additional Share-Based Compensation Using High Price Alternative (Pre-Tax) (3)	Error as a % of Pre-Tax Income (3)
1996	$ 26	.0%	$ 45	.0%	$ 68	.0%
1997	516	.3%	842	.5%	1,266	.7%
1998	1,071	.5%	1,853	.9%	2,789	1.3%
1999	2,068	1.0%	3,550	1.8%	5,342	2.7%
2000	4,371	1.6%	7,543	2.7%	11,350	4.0%
2001	5,517	1.8%	9,531	3.0%	14,342	4.6%
2002	5,556	1.5%	9,603	2.6%	14,449	3.8%
2003	4,887	1.1%	8,457	1.9%	12,726	2.8%
1996 - 2003 (4)	24,013		41,424		62,332	
2004	3,875	.78%	6,736	1.3%	10,136	2.0%
2005	2,792	.51%	4,860	0.9%	7,313	1.3%
2006	2,449	.40%	4,366	0.7%	6,569	1.1%
Total (4)	$ 33,129		$ 57,386		$ 86,350	

(1) The additional share-based compensation expense was calculated using the alternative measurement date used to determine the additional share-based compensation expense under APB No. 25 as reflected in the Consolidated Financial Statements included in this amended annual report on Form 10-K/A (the *APB No. 25 Measurement Date*). Generally, the APB No. 25 Measurement Date was the first date available to the Company to select an alternative measurement date under APB No. 25.

(2) For all awards in which the APB No. 25 Measurement Date was not based on documentation which indicated with certainty that the price and number of shares of the award had been fixed with finality by that date, additional share-based compensation expense reflected in the end date alternative was calculated using the first date when such awards appeared in a calculation supporting numbers included in a quarterly report on Form 10-Q or annual report on Form 10-K (the *End Date*). This End Date was used because it represents the first date on which the Company believed the exercise price and number of shares underlying the award were fixed with certainty. For all awards in which the APB No. 25 Measurement Date was based on documentation which indicated with certainty that the price and number of shares of the award had been fixed with finality by that date, the additional share-based compensation expense reflected in the end date alternative was calculated using the APB No. 25 Measurement Date.

(3) For all awards in which the APB No. 25 Measurement Date was not based on documentation which indicated with certainty that the price and number of shares of the award had been fixed with finality by that date, additional share-based compensation expense reflected in the high price alternative was calculated using the highest stock price between the APB No. 25 Measurement Date and the End Date. For all awards in which the APB No. 25 Measurement Date was based on documentation which indicated with certainty that the price and number of shares of the award had been fixed with finality by that date, the additional share-based compensation expense reflected in the high price alternative was calculated using the highest stock price between the grant date reflected in the original award documentation and the APB No. 25 Measurement Date.

(4) Amounts in table may not foot or cross-foot due to rounding.

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Restated Net Income and Shareholder s Equity

The following table shows for the fiscal years ended May 31, 2002 through 2006, net income as previously reported by the Company, the adjustments to net income described in this amended annual report on Form 10-K/A and net income as restated by the Company. The increase (decrease) in net income for each type of adjustment is as follows (in thousands):

Year ended May 31,	Net Income as Previously Reported	Additional Share-Based Compensation Expense (Pre-Tax)	Additional Distributor Stock Options Expense (Pre-Tax)	Additional Payroll and Withholding Taxes (Pre-Tax)	Total Additional Expense (Pre-Tax)	Tax Effect	Total Adjustments	Net Income as Restated
2002	$ 239,740	$ (5,556)	$ (1,307)	$ (4,348)	$ (11,211)	$ 3,808	$ (7,403)	$ 232,337
2003	286,701	(4,887)	(124)	(4,921)	(9,932)	3,320	(6,612)	280,089
2004	325,627	(3,875)	413	(4,617)	(8,079)	2,776	(5,303)	320,324
2005	351,616	(2,792)	51	(490)	(3,231)	988	(2,243)	349,373
2006	406,144	(2,449)	464	1,779	(206)	(30)	(236)	405,908

The effect of these adjustments on diluted earnings per share during the same period is as follows:

Year Ended May 31,	Diluted Earnings Per Share Previously Reported	Adjustments	Diluted Earnings Per Share as Restated
2002	$ 0.88	$ (0.03)	$ 0.85
2003	1.10	(0.03)	1.07
2004	1.27	(0.02)	1.25
2005	1.38	(0.01)	1.37
2006	1.63		1.63

The cumulative effect on shareholders equity resulting from the adjustments discussed above impacted shareholders equity as of May 31, 2006 as follows (in thousands):

Increase (decrease) in retained earnings:	
Total additional expense related to stock option grants	$ (59,626)
Related income tax benefit	19,632
Net reduction in retained earnings	(39,994)
Increase (decrease) in paid in capital:	
Non-cash share-based expense related to stock option awards	38,220
Increase related to tax benefit of option exercises	21,122
Decrease related to tax effects previously credited to paid in capital	(15,653)
Net increase in paid in capital	43,689
Net effect on shareholders equity	$ 3,695

NASDAQ Delisting Proceedings

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

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A hearing was held on March 1, 2007, at which the Company requested an exception within which to regain compliance with the NASDAQ s filing requirements. On April 11, 2007, a NASDAQ Listing Qualifications Panel (the Panel) granted the Company s request for an exception and continued listing on the NASDAQ Global Select Market, notwithstanding the Company s inability to timely file its quarterly report on Form 10-Q for the second quarter of fiscal 2007. The Company s continued listing is subject to certain conditions, including that the Company must become current in its delinquent periodic reports and file any required restatements of historical financial statements by May 29, 2007. On May 22, 2007, the Company requested an extension of the May 29, 2007 deadline until June 12, 2007. There can be no assurance that the Panel will grant the Company s request. In the event the Company does not fully comply with the terms of the Panel s exception and is unable to obtain a further extension of time, the Company s securities may be delisted from the NASDAQ Global Select Market. In addition, the Panel has reserved the right to reconsider the terms of its exception based on any event, condition or circumstance that would, in the Panel s opinion, make continued listing of the Company s securities on The Nasdaq Stock Market inadvisable or unwarranted.

On April 12, 2007, the Company announced that it received an additional notice of non-compliance from The Nasdaq Stock Market, pursuant to Marketplace Rule 4310(c)(14), due to the previously announced delay in filing its quarterly report on Form 10-Q for the third quarter of fiscal 2007. In the letter, the Company was invited to make an additional submission to the Panel addressing its plans for making the third quarter filing. On April 19, 2007, the Company requested an exception until June 12, 2007 to file its quarterly report on Form 10-Q for the third quarter of fiscal 2007. There can be no assurance that the Panel will grant the Company s request.

The Company may seek a further extension of time to one or both of these deadlines to comply with its NASDAQ listing requirements.

Amended Disclosures Presented in this Amended Annual Report on Form 10-K/A

For the convenience of the reader, this amended annual report on Form 10-K/A restates the Original Filing in its entirety. However, the Company has only updated disclosures presented in or incorporated by reference into the Original Filing as required to reflect the restatement described above. Accordingly, except for the risk factors under the subheading Risk Factors Related to the Stock Option Investigation set forth in Item 1A and the legal proceedings set forth under the subheading Litigation Related to the Stock Option Investigation set forth in Item 3, in each case of Part I of this amended annual report on Form 10-K/A, all information in this amended annual report on Form 10-K/A is as of August 11, 2006 the date of the Company s Original Filing or an earlier date as may be noted herein, and does not modify or update disclosures affected by subsequent events. Among other things, forward-looking statements made in the Original Filing have not been revised to reflect events, results or developments that occurred or facts that became known to the Company after the date of the Original Filing (other than for the restatement described above), and such forward-looking statements should be read in conjunction with the Company s filings with the SEC subsequent to the date of the Original Filing. The Company has amended the following items in the Original Filing:

Part I Item 1 Business Executive Officers of the Registrant

Part I Item 1A Risk Factors

Part I Item 3 Legal Proceedings

Part II Item 6 Selected Consolidated Financial Data

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

Part II Item 8 Consolidated Financial Statements and Supplementary Data

Part II Item 9A Controls and Procedures

Part IV Item 15 Exhibits and Financial Statement Schedules

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Accordingly, this amended annual report on Form 10-K/A should be read in conjunction with the Company s filings with the SEC subsequent to the date of the Original Filing, such as the Company s current reports on Form 8-K and the Company s definitive proxy statement on Schedule 14A filed with the SEC on April 24, 2007, and any amendments to these filings. In accordance with applicable SEC rules, this amended annual report on Form 10-K/A includes updated certifications from our Chief Executive Officer and Interim Chief Financial Officer as Exhibits 31.1, 31.2 and 32.1.

FORWARD-LOOKING STATEMENTS

This amended 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; 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 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 technologies; future declarations of cash dividends; the Company s ability to sustain sales and earnings growth; the Company s goals for sales and earnings growth; the 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 ability of the Company to successfully implement its desired organizational changes; the impact of the Company s managerial changes; the results and related outcomes of the review by the Special Committee, including: the impact of the restatement of the Company s financial statements or other actions that may be taken or required as a result of the Special Committee s review, including the restatement of Biomet s financial statements announced on March 30, 2007; the impact of the inability of the Company to timely file reports with the Securities and Exchange Commission and distribute such reports or statements to its shareholders; the impact of any tax consequences, including any determination that the Company filed tax returns were not true, correct and complete; the impact of any determination that some of the Company s options may not have been validly issued under the stock option plans; the impact of the determination that certain of the Company s financial statements were not prepared in accordance with GAAP and/or the required reporting standards under applicable securities rules and regulations; the impact of the determination of the existence of a material weakness in the Company s internal controls and the reevaluation of certain of the findings and conclusions in Management s Report on Internal Controls; the consequences of the determination that Company s disclosure controls and procedures required by the Exchange Act were not effective; the impact of any determination that some of Company s insurance policies may not be in full force and effect and/or that the Company may not be in compliance with the terms and conditions of those policies; litigation and governmental investigations or proceedings which may arise out of the Company s stock option granting practices or any restatement of its financial statements and the inability to meet NASDAQ requirements for continued listing. Readers of this amended report are cautioned that reliance on any forward-looking statement involves risks and uncertainties. Forward-looking statements reflect the Company s expectations, estimates, projections and assumptions as of August 11, 2006 the date of the Company s Original Filing with the SEC or an earlier date as may be noted herein, and such forward-looking statements should be read in conjunction with the Company s filings with the SEC subsequent to the Original Filing. Any of the assumptions on which forward-looking statements were made could be inaccurate given the inherent uncertainties on which these forward-looking statements were made. There can be no assurance as to the accuracy of forward-looking statements contained in this amended report. 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 amended report should carefully read the Company s filings with the SEC subsequent to the date of the Original Filing and the factors set forth under Item 1A Risk Factors of this amended report. 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.

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PART I

Item 1. Business.

General

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

The Company s principal subsidiaries include Biomet Orthopedics, Inc.; Biomet Manufacturing Corp.; EBI, L.P. (operating under the assumed names Biomet Spine and Biomet Trauma); Biomet Europe B.V.; Implant Innovations, Inc.; Walter Lorenz Surgical, Inc.; Arthrotek, Inc. and Biomet Biologics, Inc. Unless the context requires otherwise, the term Company as used herein refers to Biomet and all of its subsidiaries.

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 $266 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 five most recent fiscal years), Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge in, or may be accessed through, the Investors Section of the Company s Internet website at www.biomet.com as soon as reasonably practicable after the Company files or furnishes such material with or to the Securities and Exchange Commission. In addition, copies of these reports will be made available free of charge, upon written request to the Company s Investor Relations Department.

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

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® 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, arthroscopy products, softgoods and bracing products, casting materials, general surgical instruments, operating room supplies and other surgical products. Depending on the intended application, the Company reports sales of biologics products in the reconstructive product, fixation device or spinal product segment.

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The following table shows the net sales and percentages of total net sales contributed by each of the Company s product segments for each of the three most recent fiscal years ended May 31, 2006.

	Years Ended May 31, (Dollar amounts in thousands)					
	2006		2005		2004	
	Net Sales	Percent of Total Net Sales	Net Sales	Percent of Total Net Sales	Net Sales	Percent of Total Net Sales
Reconstructive Products	$ 1,379,420	68%	$ 1,254,234	67%	$ 1,052,865	65%
Fixation Devices	251,360	12%	246,730	13%	248,821	15%
Spinal Products	221,964	11%	214,039	11%	159,927	10%
Other Products	172,995	9%	164,947	9%	153,640	10%
Total	$ 2,025,739	100%	$ 1,879,950	100%	$ 1,615,253	100%

Reconstructive Products

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

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

Biomet s newest and most comprehensive total knee system, the Vanguard® System, accommodates up to 145 degrees of flexion. The launch of the Vanguard System, in conjunction with Biomet s Microplasty® Minimally Invasive Total Knee Instrumentation, continued throughout fiscal year 2006. The Microplasty® Instrumentation is designed to reduce incision size and surrounding soft tissue disruption, which may provide reduced blood loss, a shortened hospital stay, reduced postoperative pain and less time spent in rehabilitation, as compared to a conventional procedure.

During fiscal year 2006, the Company continued the development efforts to complete the rotating platform and revision options of the Vanguard Complete Knee System, as well as the expansion of the Microplasty® Minimally Invasive Instrument Platform to include less invasive posterior referencing, anterior referencing and image-guided options. In addition, the launch of the Premier Instrumentation and the Vanguard Revision SSK (Super Stabilized Knee) System began during fiscal year 2006 and will be expanded during fiscal year 2007. In Europe, the Company plans to continue the rollout of the ROCC (ROtating Concave Convex) Knee, a mobile-bearing total knee system.

The Company continues to be a market leader in addressing the increasing demand from practitioners and patients for procedures and products accommodating minimally-invasive knee techniques. The Oxford® Unicompartmental Knee, which is a mobile-bearing unicondylar knee that utilizes a minimally-invasive technique, continues to experience strong global sales. The Oxford® Knee, which was introduced in the United States during fiscal year 2005, is currently the only free-floating meniscal unicompartmental system approved for use in the United States. The Company s offering of minimally-invasive unicondylar knee systems also includes the Alpina® Unicompartmental Knee, which is not currently available in the United States, and the Vanguard M Series

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Unicompartmental Knee System. The Vanguard M System is a modified version of the Oxford® Knee that incorporates a fixed-bearing tibial component as opposed to a floating tibial bearing. The Repicci II® 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 Biomet® OSS Orthopaedic Salvage System continues to gain market acceptance. This system provides modular flexibility while reducing overall inventory demands. The OSS System is used mainly in instances of severe bone loss and/or significant soft tissue instability as a result of multiple revision surgeries or oncological bone deficiencies.

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® or ArComXL polyethylene-lined, metal-on-metal or ceramic-on-ceramic acetabular components. Many of the femoral prostheses utilize the Company s proprietary PPS® porous plasma spray coating, which enables cementless fixation.

The Alliance® family of Hip systems is designed to address the demand from hospitals and surgeon groups toward standardization of total hip systems. The Alliance® Hip family provides the largest selection in the marketplace of primary and revision stems available for implantation with a single set of instruments. The Alliance® family of hip systems includes the Answer®, Bi-Metric®, Hip Fracture, Integral®, Intrigue, Reach® and Rx90® Hip Systems. The Alliance® family was further augmented by introducing Exact Instrumentation, an integrated instrument set developed to promote intraoperative flexibility and increase the efficiency, simplicity and consolidation of instrument use.

The Taperloc® Hip System is marketed for non-cemented use in patients undergoing primary hip replacement surgery as a result of noninflammatory degenerative joint disease. The Taperloc® femoral component is a collarless, flat, wedge-shaped implant designed to provide excellent durability and stability in a design that is relatively simple 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 Mallory/Head® Hip System is designed for both primary and revision total hip arthroplasty procedures. The primary femoral components feature a specific proximal geometry for cementless indications and a slightly different proximal ribbed geometry for those patients requiring fixation with bone cement. The Mallory/Head® Revision Calcar components provide innovative solutions for difficult revision cases. The Mallory/Head® Calcar replacement prosthesis is offered in both a one-piece and a modular version, which allows for individual customization at the time of surgical intervention, even in cases of severe bone deficiency. The modular version of the Mallory/Head® System incorporates the Company s patented roller hardened technology, which dramatically increases the strength of the modular connection.

The Company continues to explore the development of innovative articulation technologies and materials. Biomet s M2a Metal-on-Metal Articulation System combines a cobalt chromium head with a cobalt chromium liner and has demonstrated a 20- to 100-fold reduction in volumetric wear in simulator studies compared to traditional metal-polyethylene articulation systems. The M2a-Metal-on-Metal Articulation System may be utilized on all of Biomet s femoral components and has continued to evolve with the introduction of the M2a-Magnum Articulation System, which incorporates larger diameter metal-on-metal components designed to

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more closely resemble the natural anatomy, offering improved range of motion and joint stability. The Company introduced the C^2a-Taper Acetabular System during fiscal year 2006, which provides an additional alternative bearing option featuring ceramic-on-ceramic articulation. In addition, the Company is pursuing the development of a diamond-on-diamond hip articulation system through its relationship with Diamicron, Inc., a global leader in the research, development and manufacture of polycrystalline diamond composite technology for biomedical applications. The Company continues to market ArComXL, which is a second-generation highly crosslinked polyethylene bearing material based on the Company s proven ArCom® polyethylene. ArComXL polyethylene has demonstrated excellent wear characteristics without measurable oxidation after accelerated aging.

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

The ReCap® Total Resurfacing System is a bone-conserving approach indicated for patients in the early stages of degenerative joint disease, including osteoarthritis, rheumatoid arthritis and avascular necrosis. The Company commenced a clinical study for the ReCap® Total Resurfacing System in the United States during fiscal year 2006.

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

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

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

The Copeland Humeral Resurfacing Head was developed to minimize bone removal in shoulder procedures and has over 18 years of positive clinical results in the United Kingdom. During fiscal year 2007, this system is scheduled to be expanded to include a new EAS extended articular surface designed to address rotator cuff arthropathy.

During fiscal year 2006, the Company initiated the roll out of the ExploR® Radial Head Replacement System, a two-piece hemi-elbow comprised of a tapered stem paired with a head designed to articulate with the patient s natural bone.

The Company plans to continue the introduction of T.E.S.S. (Total Evolutive Shoulder System) in selected European markets. The T.E.S.S. System is a complete shoulder system that can be used in all indications of shoulder arthroplasty. The Company plans to begin distribution of the T.E.S.S. System in the United States by the end of fiscal year 2007.

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

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root of a missing tooth and provide an anchor for an artificial tooth. 3i s flagship product, the OSSEOTITE® product line, features a patented micro-roughened surface technology, which allows for early loading and improved bone integration to the surface of the implant. The OSSEOTITE® Certain® Implant System, which was 3i s fastest growing product line in fiscal year 2006, is an internally connected system that, through the use of the QuickSeat® 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® Certain® Implant System offers enhanced flexibility in placing the implant and abutment. In fiscal year 2006, 3i continued to build on the strength of this product line by introducing the Certain® PREVAIL® Implant System. This new implant is designed to enhance crestal bone preservation as a result of its integration of the Integrated Platform Switching and a medialized Implant-Abutment-Junction. In addition, the Certain® PREVAIL® Implant is acid-etched with a Full OSSEOTITE® Surface (FOSS) with an expanded collar for increased stability.

In an effort to continue to increase simplicity and accuracy for clinicians, 3i introduced new surgical instrumentation across several different categories during fiscal year 2006. These launches included new quad shaping drills and depth indicators for use with the OSSEOTITE NT® Implant System; ACT reusable drills featuring improved cutting performance, better depth visibility and a matte surface for glare reduction; and the OSSEOCISION Surgical Drill System. Key features of the OSSEOCISION Surgical Drill System include an ergonomic foot pedal design and miniature handpiece head for access in tight interdental spaces.

During fiscal year 2006, 3i launched several additions to the Provide® Abutment Restoration System, which is designed to be more widely accepted by general dentists due to its ease of use.

3i s offering of restorative treatment options also includes the GingiHue® Post and the ZiReal® Post. The GingiHue Post is a gold-colored titanium nitride coated abutment, which optimizes the projection of natural color through soft tissue. The ZiReal® Post offers a highly aesthetic restorative option. This zirconia-based abutment provides the natural translucence of ceramic material, but with greater strength, durability and resistance to cracking than conventional alumina oxide ceramic abutments. Both of these products may be used with conventional implant therapy.

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

The Company is involved in the ongoing development of bone cements and delivery systems. The Company has broadened the range of its internally developed and manufactured bone cement product offerings. Cobalt HV Bone Cement, which was introduced in the United States during fiscal year 2006, is particularly well suited for use in minimally-invasive surgery, but may be used in all applicable joint replacement procedures. The excellent handling characteristics and high optical contrast of Cobalt HV Bone Cement are well suited to the current trends in orthopedic surgery. The Company offers its internally developed and manufactured bone cements with and without antibiotic and markets them in conjunction with Biomet s patented Optivac® Vacuum Mixing System. During fiscal year 2006, the Company began to market in Europe a full range of internally-developed bone cements, including Refobacin® Bone Cement with antibiotic.

Additional products and services for reconstructive indications include bone graft substitute materials and services related to allograft material. Calcigen® S calcium sulfate bone graft substitute is a self-setting paste used to fill bone voids. The Calcigen® 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

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supply of allograft material procured through several tissue bank alliances. Markets addressed by the Company s allograft services include the orthopedic and dental reconstructive market segments, as well as the spinal, craniomaxillofacial and arthroscopy segments.

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

The Company has discontinued its development efforts related to the Acumen® Surgical Navigation 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. The Company s craniomaxillofacial fixation products are marketed by its subsidiary, Walter Lorenz Surgical, Inc. All other fixation products are marketed primarily under the Biomet Trauma tradename.

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

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

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

The Company also offers an implantable option when bone growth stimulation is required in conjunction with or subsequent to surgical intervention. The OsteoGen® Surgically Implanted Bone Growth Stimulator is an

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

During fiscal year 2005, a private company petitioned the FDA to reclassify noninvasive bone growth stimulators from Class III to Class II medical devices. The petition is directed at products, like those described above, that utilize electromagnetic fields to stimulate bone growth. In June 2006, the FDA Advisory Panel recommended that the bone growth stimulator devices remain Class III devices. However, the FDA is not required to act in concert with the Advisory Panel s recommendation. The outcome of this matter will most likely not be known for some time.

External Fixation Devices. External fixation is utilized for stabilization of fractures when alternative methods of fixation are not suitable. The Company offers a complete line of systems that address the various segments of the trauma and reconstructive external fixation marketplace. The DynaFix® and DynaFix® Vision Systems are patented, modular external fixation devices intended for use in complex trauma situations involving upper extremities, the pelvis and lower extremities. 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 stabilize traumatic bone injuries. These devices are used by orthopedic surgeons to provide an accurate means of setting and stabilizing fractures and for other reconstructive procedures. They are intended to aid in the healing process and may be removed when healing is complete. Internal fixation devices are not intended to replace normal body structures.

The Company develops, manufactures and/or distributes innovative products that fit into key segments of the fixation marketaplace. The VHS® Vari-Angle Hip Fixation System is used primarily in the treatment of hip fractures. The components of the VHS® Vari- Angle Hip Fixation System can be adjusted intraoperatively, allowing the hospital to carry less inventory, while providing greater intraoperative flexibility to achieve the optimum fixation angle. The Holland Nail System is a single, universal trochanteric nail designed to treat all types of femoral (hip or thigh) fractures.

During fiscal year 2005, the Company introduced the EBI® Peritrochanteric Nail System, which incorporates an innovative single lag screw concept and is delivered through a trochanteric entry point. In conjunction with the VHS® System and the Holland Nail System, the EBI® Peritrochanteric Nail System will further augment the Company s product portfolio for hip fracture fixation treatment.

The EBI® 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 EBI® Ankle Arthrodesis Nail is designed for reconstructive procedures where internal fixation is desired for fusion of the ankle joint.

The Company has also implemented several projects in the area of locked plating designs. The OptiLock® Distal Radius Plating System was designed using state-of-the-art locking technology and incorporates plates and screws that address volar, radial and dorsal plating applications. During year 2006, the Company completed the surgical validation and initial rollout of the OptiLock® Periarticular Plating System. The complete domestic launch for this system is scheduled to be completed during fiscal year 2007. The OptiLock® Periarticular Plating System is a unique, pre-contoured plating system designed for fixation of periarticular lower extremity fractures. It incorporates patent-pending technology that allows the surgeon to utilize locked or unlocked screws in various

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diameters through any hole in the plate, while incorporating minimally-invasive techniques. During fiscal year 2007, the Company intends to continue to make innovative improvements in hip fracture, locked plating, external fixation and intramedullary fixation devices to enhance the Company s portfolio of fixation implants for the trauma marketplace.

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

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

Mimix® 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® QS, a quick-setting bone substitute material, provides surgeons with a faster-setting formulation. This version of the Mimix® 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 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 the development of motion preservation systems. These products are marketed in the U. S. primarily under the Biomet Spine tradename.

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

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

The surgically implanted SpF® Spinal Fusion Stimulator consists of a generator that provides a constant direct current to titanium cathodes placed where bone growth is required. The Mechanism of Action behind the

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Company s direct current stimulation technology involves the stimulation of a number of osteoinductive growth factors including BMP-2,-6 and -7 and the BMP-2 receptor ALK2, which are normal physiological regulators of various stages of bone healing, including chondrogenesis and osteogenesis. The SpF® Stimulator has exhibited a 50% increase in fusion success rates over fusions with autograft alone. The SpF® MINI, a new, smaller SpF® Stimulator, designed to enhance patient comfort and physician pre-implant testing and implantation, was launched during fiscal year 2006.

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

The Company offers a variety of spacer products for the thoracolumbar market segment. The Ionic® Spine Spacer System features an open design that allows for optimal bone graft placement and bone ingrowth, along with the additional benefit of excellent postoperative x-ray visualization. The Geo Structure® family features various sizes and shapes, including ovals, straight rectangles and bent rectangles. The Geo Structure® family of products are produced from cast titanium, offering a maximum amount of space inside the implant, with a minimum amount of material, resulting in excellent strength characteristics and imaging capabilities. The Solitaire System is a stand-alone device for anterior indications. The TPS System is a unique implant indicated for trauma and tumor pathologies of the thoracolumbar spine. This implant is designed as a combination of a plate and spacer that is expandable, allowing the surgeon to fit the implant to the defect. The Company also offers the ESL and Ibex Spine Systems. Both of these systems are endplate-sparing designs, reducing the risk of subsidence. In addition, both the ESL and Ibex Systems are open to permit ample space for bone graft placement and growth. The ESL System features an elliptical shape offering optimal surface contact with the vertebral body endplates. The Ibex implant is curved to conform to the anatomical shape of the vertebral body. Additionally, the beveled corners of the Ibex implant facilitate ease of use for the surgeon during implantation. In fiscal year 2006, the Company released the Ibex System with a PEEK-OPTIMA® implant option for increased radiographic fusion assessment. The Company plans to launch the PEEK-OPTIMA® version of the ESL Spine System in fiscal year 2007.

For cervical applications, the VueLock® Anterior Cervical Plate System offers surgeons several important benefits. The open design of the VueLock® System provides surgeons with enhanced visualization of the bone graft both during the actual surgical procedure and postoperatively on x-ray. The Company also offers the

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PEEK-OPTIMA® is a registered trademark of Victrex PLC.

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

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

To address the vertebral body compression fracture market, the Company offers a Vertebroplasty System. This system is designed for the delivery of materials to weakened bony structures and comes in several different configurations, including the CDO, LP2 and DCD Systems. The Vertebroplasty System is a low-pressure system designed to deliver high viscosity material. Through a series of dilating cannulae and various instruments, the Vertebroplasty System allows the surgeon to access the anatomy through a percutaneous approach and safely deliver the desired material under low, controlled pressure.

Bone Substitute Materials. Traditional spinal fixation surgery includes the use of a spinal fixation device in conjunction with a bone substitute or bone graft material to increase the likelihood of successful bone fusion. Pro Osteon® 200R and Pro Osteon® 500R are bone graft substitutes made from marine coral. Both are a resorbable combination of hydroxyapatite and calcium carbonate that is resorbed and replaced with natural bone during the healing process. Pro Osteon® 200R is available as granules. Pro Osteon® 500R is available in granules and blocks. The EBI® DBM (Demineralized Bone Matrix) Putty, derived exclusively from human bone, can be used with a variety of substances, such as bone substitute material, machined allograft, autograft and platelet rich plasma, to enhance the surgeon s treatment options. The Company also has available the InterGro® line of DBM products (InterGro® Paste, InterGro® Putty and InterGro® Plus). The InterGro® DBM products use lecithin as a carrier. Lecithin is an entirely natural carrier that can be easily absorbed by the body.

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

Motion Preservation Products. The international clinical study for the lumbar version of the Regain Lumbar Artificial Disc, a one-piece pyrocarbon artificial disc nucleus replacement, began during fiscal year 2005. The pyrocarbon material has a high level of strength, is biocompatible and extremely resistant to wear. An IDE study for the Regain Disc is planned to begin in the United States during fiscal year 2007. In addition, the Company is developing the Rescue Cervical Disc Replacement product and the Min T Lumbar Artificial Disc for total lumbar disc replacement procedures.

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Other Products

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

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

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

Product Development

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

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

For the years ended May 31, 2006, 2005 and 2004, the Company expended approximately $84,988,000, $80,213,000, and $64,964,000, respectively, on research and development. It is expected that ongoing research and development expenses will continue to increase. The Company s principal research and development efforts relate to its orthopedic reconstructive devices, spinal fixation products, revision orthopedic reconstructive devices, dental reconstructive implants, arthroscopy products, resorbable technology and biologics products.

The Company s research and development efforts have produced more than 700 new products and services during the last six fiscal years. During fiscal year 2007, the Company intends to release numerous new products, product line extensions and improvements.

Government Regulation

Most aspects of the Company s business are subject to some degree of government regulation in the countries in which its operations are conducted. It has always been the practice of the Company to comply with all regulatory requirements governing its products and operations and to conduct its affairs in an ethical manner. This practice is reflected in the Company s Code of Business Conduct and Ethics and through the responsibility of the Audit Committee of the Board of Directors to review the Company s systems of internal control, its process for monitoring compliance with laws and regulations and its process for monitoring compliance with its Code of Business Conduct and Ethics. For some products, and in some areas of the world such as the United

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States, Canada, Japan and Europe, government regulation is significant and, in general, there appears to be a trend toward more stringent regulation throughout the world, as well as global harmonization of various regulatory requirements. The Company devotes significant time, effort and expense to addressing the extensive government and regulatory requirements applicable to its business. Governmental regulatory actions can result in the recall or seizure of products, suspension or revocation of the authority necessary for the production or sale of a product, and other civil and criminal sanctions. The Company believes that it is no more or less adversely affected by existing government regulations than are its competitors.

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

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

In addition, governmental bodies in the United States and throughout the world have expressed concern about the costs relating to healthcare and, in some cases, have focused attention on the pricing of medical devices. Government regulation regarding pricing of medical devices already exists in some countries and may be expanded in the United States and other countries in the future. The Company is subject to increasing pricing pressures worldwide as a result of growing regulatory pressures, as well as the expanding predominance of managed care groups and institutional and governmental purchasers. Under Title VI of the Social Security Amendments of 1983, hospitals receive a predetermined amount of Medicare reimbursement for treating a particular patient based upon the patient s type of illness identified with reference to the patient s diagnosis under one or more of several hundred diagnosis-related groups (DRGs). Other factors affecting a specific hospital s reimbursement rate include the size of the hospital, its teaching status and its geographic location. The Company s orthopedic reconstructive products are primarily covered by DRG 544 (Major Joint Replacement or Reattachment of the Lower Extremity; previously included in DRG 209), DRG 545 (Revision of Hip or Knee Replacement; previously included in DRG 209), 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, 2005, certain reimbursements for DRG payment were adjusted by the Center for Medicare and Medicaid Services (CMS). In addition, CMS replaced DRG 209 (Major Joint and Limb Reattachment Procedures Lower Extremities), with DRG codes 544 and 545. The new reimbursement rates for DRG 544 and DRG 545 represented an increase of 0.1% and 26.5%, respectively, over the previous DRG 209 rate. The reimbursement rates for DRG 471 and 491 were increased 6.6% and 2.1%, respectively. In addition, the average reimbursement rates for spinal and trauma procedures were increased 5.0% and 4.5%, respectively.

On August 1, 2006, CMS announced the revised rates that will go into effect October 1, 2006. CMS has proposed substantial changes in the DRGs, based on recommendations made by the Congressional Medicare Payment Advisory Commission (MedPAC). These proposed changes have three major components. First, there would be an across-the-board payment increase of approximately 3.0%, consisting of a 3.4% increase in

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operating payments and essentially no increase in capital payments. Second, the DRG relative weights would be set on the basis of average accounting costs in each DRG rather than average standardized charges (cost-based weights). Third, in 2008, or possibly earlier, CMS would begin to eliminate the current DRGs in favor of consolidated severity-adjusted DRGs (CSA-DRGs), which would group cases in ways that are sometimes substantially different from the current DRGs. In addition, these proposed changes would separate out cases by the apparent severity of illness based on diagnoses reported on the inpatient claims (severity-adjusted DRGs).

The net, long-term impact of these proposed changes is difficult to predict precisely. However, the rates that will go into effect October 1, 2006 reflect a positive pricing environment for the majority of the Company s products. The new reimbursement rates for DRG 544 and DRG 545 reflect an increase of 4.2% and 5.0%, respectively. As a group, the new reimbursement rates for spinal and trauma procedures are estimated to increase an average of 7.0% and a range of 3% to 5%, 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 68 million people by the year 2016. 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 2,700 sales representatives throughout the world.

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

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

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For the fiscal years ended May 31, 2006, 2005 and 2004, the Company s foreign sales aggregated $700,626,000, $641,223,000 and $535,721,000, respectively, or 35%, 34% and 33% 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 2006, foreign sales were negatively impacted by $21 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 M of the Notes to Consolidated Financial Statements included in Item 8 Consolidated Financial Statements and Supplementary Data of this amended 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, 2006, inventory of approximately $188,976,000 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, have the predominant share of the global 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 excellent clinical results of its products, and upon its ability to design and market innovative and technologically-advanced products that meet the needs of the marketplace.

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

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

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

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

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

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

Raw Materials and Supplies

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

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

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

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

Employees

As of May 31, 2006, the Company s domestic operations (including Puerto Rico) employed approximately 4,075 persons, of whom approximately 2,158 were engaged in production and approximately 1,917 in research and development, sales, marketing, administrative and clerical efforts. The Company s international subsidiaries employed approximately 2,282 persons, of whom approximately 1,082 were engaged in production and approximately 1,200 in research and development, sales, marketing, administrative and clerical efforts. None of the Company s principal domestic manufacturing employees is represented by a labor union. The production employees at its Bridgend, South Wales facility are organized. Employees working at the facilities in Germany; Valence, France; and Valencia, Spain are represented by statutory Workers Councils which negotiate labor hours and termination rights. The Workers Councils do not directly represent such employees with regard to collective bargaining of wages or benefits. The Company believes that its relationship with all of its employees is satisfactory.

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The establishment of Biomet s domestic orthopedic reconstructive manufacturing operations in north central Indiana, near other members of the orthopedic industry, provides access to the highly skilled machine operators required for the manufacture of Biomet® products. The Company s European manufacturing locations in South Wales, England, France, Spain, Sweden and Germany also provide good sources for skilled manufacturing labor. 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 business objectives. The Company does not believe that it has any single patent or license (or series of patents or licenses) that is material to its operations. The Company is not aware of any single patent that, if lost or invalidated, would be material to its consolidated revenues or earnings. The Company currently has more than 1,000 patents and in excess of 750 pending patent applications.

BIOMET, EBI, W - LORENZ, 3i, ARTHROTEK and INTERPORE CROSS 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 amended report, all trademarks contained herein are owned by Biomet, Inc. or one of its affiliates.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age, business background, positions held with the Company and tenure as an executive officer of each of the Company s executive officers as of August 1, 2006 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 Position(s) with the Company
Daniel P. Hann, 51* Interim President and Chief Executive Officer since March 27, 2006. Prior thereto, Senior Vice President, General Counsel and Secretary of the Company. Director of the Company since 1989.	1989	Interim President and Chief Executive Officer and Director of the Company
Charles E. Niemier, 50* Senior Vice President of the Company, President of EBI, L.P., Biomet Spine and Biomet Trauma since July 14, 2006. Chief Operating Officer International Operations from December 2005 to July 2006. Prior thereto, Senior Vice President International Operations of the Company. Director of the Company since 1987.	1984	Senior Vice President of the Company, President of EBI, L.P., Biomet Spine and Biomet Trauma and Director of the Company
Garry L. England, 52 Chief Operating Officer Domestic Operations since December 2005. Prior thereto, Senior Vice President - Warsaw Operations.	1987	Chief Operating Officer Domestic Operations
Gregory D. Hartman, 49* Senior Vice President Finance, Chief Financial Officer and Treasurer.	1991	Senior Vice President Finance, Chief Financial Officer and Treasurer
James W. Haller, 49 Controller of the Company and Vice President Finance of Biomet Orthopedics, Inc. since June 2001.	1991	Controller of the Company and Vice President Finance of Biomet Orthopedics, Inc.
Roger P. Van Broeck, 58 President of International Operations since July 2006, Vice President of the Company since July 2004, and President of Biomet Europe since March 2004. Prior thereto Chief Executive Officer of BioMer C.V. and Biomet Merck B.V.	2004	President of International Operations
Steven F. Schiess, 46 Vice President of the Company and President of Implant Innovations Inc. since June 2005. Prior thereto, Senior Vice President, Sales and Marketing of Implant Innovations, Inc.	2005	Vice President of the Company and President of Implant Innovations, Inc.

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Name, Age and Business Experience	Served as Executive Officer Since	Current Position(s) with the Company
Bradley J. Tandy, 47* Vice President, Acting General Counsel and Secretary and Corporate Compliance Officer since March 27, 2006. Prior thereto, Vice President, Assistant General Counsel and Corporate Compliance Officer.	2006	Vice President, Acting General Counsel and Secretary and Corporate Compliance Officer
Thomas R. Allen, 53 President International Operations, The Americas and Asia Pacific since June 29, 2006. Prior thereto, Vice President The Americas and Asia Pacific for Biomet Orthopedics, Inc.	2006	President International Operations, The Americas and Asia Pacific
Richard J. Borror, 47 Chief Information Officer and Corporate Vice President for Manufacturing since April 10, 2006. Corporate Vice President for Manufacturing from December 2005 to April 2006. Prior thereto, Vice President Manufacturing for Biomet Manufacturing Corp.	2006	Chief Information Officer and Corporate Vice President for Manufacturing
Gregory W. Sasso, 44 Senior Vice President Corporate Development and Communications since June 29, 2006. Prior thereto, Vice President Corporate Development and Communications of Biomet, Inc.	2006	Senior Vice President Corporate Development and Communications
Darlene Whaley, 49 Senior Vice President Human Resources since June 29, 2006. Prior thereto, Vice President Human Resources	2006	Senior Vice President Human Resources
William C. Kolter, 48 President, Biomet Orthopedics, Inc. since December 2005. Prior thereto, Vice President Marketing of Biomet Orthopedics, Inc.	2006	President Biomet Orthopedics, Inc.

* On February 26, 2007 the Company announced the appointment of Jeffrey R. Binder as President and Chief Executive Officer and a member of the Company s Board of Directors.

In light of the Special Committee s findings described in the Explanatory Note immediately preceding Part I, Item 1 of this amended annual report on Form 10-K/A, on March 30, 2007 Daniel P. Hann retired from his position as Executive Vice President of Administration (his then current position with the Company) and a director of the Company.

In light of the Special Committee s findings described in the Explanatory Note immediately preceding Part I, Item 1 of this amended annual report on Form 10-K/A, on March 30, 2007 Gregory D. Hartman retired from his position as Senior Vice President Finance, Chief Financial Officer and Treasurer.

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On March 30, 2007 the Company announced the appointment of J. Pat Richardson as Vice President Finance and Interim Chief Financial Officer and Treasurer and on May 14, 2007 the Company announced the appointment of Daniel P. Florin as Senior Vice President and Chief Financial Officer to become effective June 5, 2007.

On April 7, 2007 the Company announced the appointment of Glen A. Kashuba to Senior Vice President and President of Biomet Trauma and Biomet Spine and the appointment of Charles E. Niemier, formerly President of Biomet Trauma and Biomet Spine, to Senior Vice President, Biomet International and Corporate Relations.

Bradley J. Tandy s title is currently Senior Vice President, General Counsel and Secretary.

For further information concerning the Company s executive officers see the Company s definitive proxy statement on Schedule 14A filed with the SEC on April 24, 2007 and other filings with the SEC subsequent to the Original Filing.

Item 1A. Risk Factors.

The following factors, among others, could cause the Company s future results to differ from those contained in forward-looking statements made in this amended 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. Except for the risk factors set forth under the subheading Risk Factors Related to the Stock Option Investigation, the following discussion of the Company s risk factors speaks only as of August 11, 2006 the date of the Company s Original Filing or an earlier date as may be noted herein, and should be read in conjunction with the consolidated financial statements and notes included herein and the Company s filings with the SEC subsequent to the Original Filing. Because of these and other factors, past financial performance should not be considered an indication of future performance.

Risk Factors Relating to the Company s Business

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 68% of the Company s net sales for the year ended May 31, 2006. The Company expects sales of reconstructive products to continue to account for a significant portion of the Company s aggregate sales. Any event adversely affecting the sale of reconstructive products may, as a result, adversely affect the Company s business, results of operations and financial condition.

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

The market for the Company s products is highly competitive and dominated by a small number of large companies. The Company is continually engaged in product development, research and improvement efforts. New products and line extensions of existing products represent a significant component of the Company s growth rate. The Company s ability to continue to grow sales effectively depends on its capacity to keep up with existing or new products and technologies in the musculoskeletal products market. The process of obtaining

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regulatory approvals to market a medical device, particularly from the FDA and certain foreign governmental authorities, can be costly and time consuming and approvals might not be granted for future products on a timely basis, if at all. Delays in receipt of, or failure to obtain, approvals for future products could result in delayed realization of product revenues or in substantial additional costs which could have a material adverse effect on the Company s business or results of operations. In addition, 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 and materials; provide innovative surgical techniques; accurately anticipate and meet customers needs; commercialize new products in a timely manner; and manufacture and deliver products and instrumentation in sufficient volumes on time.

Moreover, research and development efforts may require a substantial investment of time and resources before the Company 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 and its customers are subject to substantial government regulation and compliance with these regulations can have a material adverse effect on the Company s business.

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

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

Various federal and state agencies have become increasingly vigilant in recent years in their investigation of various business practices. Governmental and regulatory actions against the Company can result in various actions that could adversely impact its 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;
- the exclusion of the Company s products from being reimbursed by federal and state health care programs (such as Medicare, Medicaid, Veterans Administration health programs and Civilian Health and Medical Program Uniformed Service (CHAMPUS); and
- other civil or criminal sanctions against the Company.

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

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

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

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 2006, sales of the Company s products outside of the United States was $700,626,000 or 35% 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 negatively affected by approximately 1% during fiscal year 2006 and positively affected by 2% during fiscal year 2005, 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 healthcare programs are adopted in the Company s key markets.

In the United States, healthcare providers that purchase our products (e.g., hospitals, doctors, dentists and other health care providers) generally rely on payments from third-party payors (principally federal Medicare, state Medicaid and private health insurance plans) to cover all or a portion of the cost of our musculoskeletal products. These third-party payors may deny reimbursement if they determine that a device used in a procedure was not in accordance with cost-effective treatment methods, as determined by the third-party payor, or was used for an unapproved indication. Third-party payors may also decline to reimburse for experimental procedures and devices. In the event that third-party payors deny coverage or reduce their current levels of reimbursement, we may be unable to sell certain of our products on a profitable basis, thus, materially adversely impacting our 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 our products.

In addition, some healthcare providers in the United States have adopted, or are considering the adoption of, a managed care system in which the providers contract to provide comprehensive healthcare for a fixed cost per person. Healthcare providers in a managed care system may attempt to control costs by authorizing fewer elective surgical procedures, including joint reconstructive surgeries, or by requiring the use of the least expensive implant available. In response to these, and other, pricing pressures, the Company s competitors may

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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 future prospects. Further, in the event that the United States considers the adoption of a national healthcare system in which prices are controlled and patient care is managed by the government, such regulation could have a material adverse effect on the Company s business, results of operations and financial condition.

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

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

The Company 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 its products and anticipate that the Company will continue to receive claims in the future, some of which could have a material adverse impact on its business. Additionally, we could experience a material design or manufacturing failure in our 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 it might incur. If a product liability claim or series of claims is brought against the Company for uninsured liabilities or is in excess of its insurance coverage limits, the Company s business could suffer and its results could be materially adversely impacted.

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

The Company may not be able to retain its historical level of business in the bone cements and cement delivery system market segment.

During fiscal year 2006, Heraeus Kulzer GmbH (Kulzer) ended its relationship with the Company. Historically, Kulzer was the primary supplier of bone cement to the Company, including, most notably, the Palacos® family of bone cement products. In addition, price increases for the Septopal® product (which continues to be supplied by Kulzer to the Company) that were put into effect at the end of fiscal year 2005 have led to significantly decreased profit on sales of the Septopal® product. The Company has been working to broaden the range of its internally developed and manufactured bone cement products. Although the Company believes the bone cement products newly introduced and under development are well suited to meet the current trends in orthopedic surgery, and with respect to some products represent an improvement in bone cement, the market acceptance of those products has yet to be determined. The Company cannot provide any assurances that it will be able to maintain its historic level of bone cement sales and such a decrease in sales may adversely affect the Company s financial results.

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

As discussed in greater detail in Item 3 Legal Proceedings of this Form 10-K/A, the Company has received two grand jury subpoenas from the United States Department of Justice. The Company has cooperated

Palacos® is a registered trademark of Heraeus Kulzer GmbH.

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and intends to continue to fully cooperate with the Department of Justice. Nonetheless, the results of these inquiries may not be known for several years. The cooperation in these inquiries requires the diversion of Company resources, including time and expense, from other Company matters. Moreover, in the event that the Company is found to have violated one or more applicable laws as a result of these investigations, our business and results of operations may be materially adversely impacted and the Company may be required to significantly change some of its existing business practices.

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

The Company has approximately 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. Such an event could have a material adverse effect on the Company s business prospects, results of operations and financial condition.

Risk Factors Relating to the Stock Options Investigation

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

On December 18, 2006 and March 30, 2007 the Company announced preliminary and updated reports from the Special Committee following the publication of an analyst report suggesting that certain historical stock option grants took place on dates where the Company s stock price was trading at relatively low prices and the filing of two shareholder derivative lawsuits alleging improper backdating of stock options. Based upon an analysis of these reports and relevant accounting literature, including Staff Accounting Bulletin No. 99, our Audit Committee determined on March 30, 2007 that we should amend the Company s annual report on Form 10-K for the fiscal year ended May 31, 2006 and Quarterly Report on Form 10-Q for the period ended August 31, 2006 to reflect the restatement of the consolidated financial statements reflected therein (fiscal years ended May 31, 2006, 2005 and 2004 and periods ended August 31, 2006 and 2005) and related disclosures reflected therein. On May 25, 2007, the Board received and discussed the updated findings contained in the Special Committee s final report.

The Company s review of historical stock option granting practices has required the Company to incur additional expenses for legal, accounting, tax and other professional services, and could in the future adversely affect our business, financial condition, results of operations and cash flows including by virtue of exposing the Company to greater risks associated with litigation, regulatory and other governmental proceedings. While the Company believes that it has made appropriate judgments in connection with this restatement (including in determining the correct measurement dates for the approximately 17,000 stock option awards in question), the SEC or other governmental agencies may disagree with the manner in which the Company has accounted for and reported, or not reported, the financial and other impacts of past stock option grant measurement date errors, and there is a risk that any such inquiry could lead to circumstances in which the Company may have to further restate its prior financial statements, amend prior SEC or other filings, or otherwise take other actions not currently contemplated by the Company. Any such circumstance could also lead to future delays in filing the Company s subsequent SEC reports and delisting of its common shares from The NASDAQ Global Select Market. The Company cannot assure you that any future litigation or regulatory action will result in the same conclusions reached by the Audit Committee. The conduct and resolution of these matters may be time consuming, expensive and distracting from the conduct of the Company s business. Furthermore, if the Company is subject to adverse findings in any of these matters, the Company could be required to pay damages, penalties or additional taxes or have other remedies imposed upon us which could harm its business, financial condition, results of operations and cash flows.

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

In connection with the Company s historical stock option practices and resulting restatements, a number of derivative actions were filed against certain of the Company s current and former directors and officers purporting to assert claims on the Company s behalf, as discussed in Item 3 Legal Proceedings herein. There may be additional lawsuits of this nature filed in the future. The Company cannot predict the outcome of these lawsuits, nor can the Company predict the amount of time and expense that will be required to resolve these lawsuits. These lawsuits may become time consuming and expensive, and if there are unfavorable outcomes in any of these cases, there could be a material adverse effect on the Company s business, financial condition and results of operations.

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

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

The following are the principal properties of the Company:

FACILITY	LOCATION	SQUARE FEET	OWNED/ LEASED
Corporate headquarters of Biomet, Inc.; manufacturing, storage and research and development facilities of Biomet Manufacturing Corp.; distribution center and offices of Biomet Orthopedics, Inc.	Warsaw, Indiana	517,200	Owned
Administrative, manufacturing and distribution facility of EBI, L.P. and administrative offices of Electro-Biology, Inc.	(1) Parsippany, New Jersey [1]	63,000	Owned
	(2) Parsippany, New Jersey	209,700	Owned
Manufacturing facility of EBI, L.P.	Allendale, New Jersey	30,000	Leased
Manufacturing facility of EBI, L.P.	Marlow, Oklahoma	51,500	Owned
Administrative, manufacturing and distribution facility of Walter Lorenz Surgical, Inc.	Jacksonville, Florida	82,500	Owned
Office, manufacturing and distribution facility of Implant Innovations, Inc.	(1) Palm Beach Gardens, FL	117,000	Owned
	(2) Palm Beach Gardens, FL [2]	69,000	Owned
Office and manufacturing facilities of Arthrotek, Inc.	(1) Ontario, California	35,400	Owned
	(2) Redding, California	14,400	Leased
Manufacturing facility of Biomet Fair Lawn L.P.	Fair Lawn, New Jersey	40,000	Owned
Office and manufacturing facility of Electro-Biology, Inc.	Guaynabo, Puerto Rico	34,700	Owned
Office, manufacturing and distribution facilities of Interpore Spine Ltd.	(1) Irvine, California	36,800	Leased
	(2) Irvine, California	27,700	Leased
Office, manufacturing and warehouse facility of Biomet France Sarl	Valence, France	86,100	Owned
Office, manufacturing and warehouse facilities of Biomet Deutschland GmbH	Berlin, Germany	49,900	Owned
Office and research and development facility of Biomet Deutschland GmbH	Darmstadt, Germany	29,200	Leased
Administrative offices of Biomet Europe B.V. and office and warehouse facility of Biomet Nederland BV, Walter Lorenz Surgical Europe B.V. and Biomet Europe Spine B.V.	Dordrecht, The Netherlands	37,700	Owned
Office and manufacturing facility of Biomet Spain Orthopedics S.L.	Valencia, Spain	69,600	Owned
Office, manufacturing and warehouse facilities of Biomet Cementing Technologies AB	Sjobo, Sweden	24,200	Owned
Manufacturing and administrative facilities of Biomet UK Ltd.	(1) Bridgend, South Wales	105,200	Owned
	(2) Swindon, England	53,400	Owned

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

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

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

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Item 3. Legal Proceedings.

Except for the legal proceedings set forth under the subheading Litigation Relating to the Stock Option Investigation below, all information set forth in this Item 3 Legal Proceedings is as of August 11, 2006 the date of the Company s Original Filing or an earlier date as may be noted herein, and does not modify or update disclosures affected by subsequent events.

Litigation Disclosed in the Original Filing

On March 30, 2005 the Company announced that it had received a subpoena from the U.S. Department of Justice through the U.S. Attorney for the District of New Jersey requesting documents related to any consulting and professional service agreements with orthopedic surgeons using or considering the use of Biomet s hip or knee implants for the period January 2002 through March 29, 2005. The Company is aware that similar inquiries were directed to other companies in the orthopedics industry. On July 19, 2006 Biomet received a letter from the U.S. Department of Justice through the U.S. Attorney for the District of New Jersey requesting additional documents further to the subpoena issued in March 2005. This letter requested additional documents related to consulting and service agreements for the time period January 1998 through the present, as well as research and other grant agreements for that same time period. Further, the letter requested that the Company provide copies of the agreements identified in the supplemental request on an on-going basis. In addition, the requested information related to Company-sponsored training events, the selection process used by the Company to identify consultants and researchers, the Company s product design process for hip and knee implants and information on the Company s orthopedic sales force. The Company has cooperated and intends to continue to fully cooperate with the Department of Justice inquiry. The results of this inquiry may not be known for several years.

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

On June 26, 2006 the Company announced that it had received a federal grand jury subpoena issued at the request of the U.S. Department of Justice, Antitrust Division, requesting documents regarding possible violations of federal criminal law, including possible violations of the antitrust laws, relating to the manufacture and sale of orthopedic implant devices (the Subpoena). The Subpoena requests documents from January 1, 2001 through the present date. The Company is aware of similar subpoenas directed to other companies in the orthopedics industry. The Company has cooperated and intends to continue to fully cooperate with the Department of Justice investigation. The result of this investigation may not be known for several years. However, the scope of the Subpoena has currently been narrowed to a specific geographic region and specific product lines. It is the Company s belief that the other orthopedic companies that received similar subpoenas have received similar guidance. It is the Company s belief that the investigation was prompted by an unsolicited e-mail sent by a representative of one of the Company s competitors that proposed a common pricing strategy in connection with a particular hospital. This e-mail was received by an independent sales representative of an independent distributor for Biomet Orthopedics, but it was never transmitted to the Company. Neither the Company, its independent distributor, nor its independent sales representative took any action in response to the e-mail, and the Company believes that no anticompetitive activity took place as a result of it. The Company requires compliance by its employees and its independent distributors with its Code of Business Conduct and Ethics and with applicable antitrust laws. The information provided herein is limited to the information available to the Company at the present time and the Company cannot offer any assurances as to the scope and final outcome of this investigation.

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On an issue related to the subpoena received from the Antitrust Division of the U.S. Department of Justice, the Company has received two complaints in Class Action lawsuits alleging violations of the Sherman Antitrust Act. In addition, the Company is aware of other complaints that have been filed, but not served on the Company. The complaints also named various other companies in the orthopedics industry as defendants. The Company intends to vigorously defend this matter and believes that it has meritorious defenses to the claims being asserted.

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

Litigation Relating to the Stock Option Investigation

On September 21, 2006, two shareholder-derivative complaints were filed against certain of Biomet s current and former directors and officers in Kosciusko Superior Court I in Kosciusko County, in the State of Indiana. The complaints, captioned *Long v. Hann, et al.*, and *Thorson v. Hann, et al.*, alleged violations of state law relating to the issuance of certain stock option awards by the Company dating back to 1996. Both complaints sought unspecified money damages as well as other equitable and injunctive relief. These two cases were consolidated under the caption *In re Biomet, Inc. Derivative Litigation*, and on January 19, 2007, plaintiffs filed an amended complaint that made additional allegations based on the Company s December 18, 2006 disclosures related to stock option awards, including allegations that the defendants sought to sell the company in order to escape liability for their conduct, and that they did so at a devalued price, thus further breaching their fiduciary duties to shareholders. On February 16, 2007, defendants filed a motion to dismiss plaintiffs amended complaint, which is currently pending with the court.

On December 11, 2006, a third shareholder-derivative complaint captioned *International Brotherhood of Electrical Workers Local 98 Pension Fund v. Hann, et al.*, No. 06 CV 14312, was filed in federal court in the Southern District of New York. The *IBEW* case makes allegations and claims similar to those made in the Indiana litigation, in addition to purporting to state three derivative claims for violations of the federal securities laws. On February 15, 2007, defendants filed a motion to dismiss the plaintiff s complaint. On April 11, 2007, plaintiffs filed a motion for partial summary judgment claiming that the disclosures in the Company s April 2, 2007 Form 8-K filing and press release regarding the Company s historical stock options granting practices constitute admissions sufficient to establish defendants liability on certain of plaintiffs claims. Both motions are currently pending with the court.

Pursuant to Indiana law and provisions of our articles of incorporation, we are advancing reasonable expenses, including attorneys fees, incurred by the current and former Biomet directors and officers in defending these lawsuits.

On May 25, 2007, the Board received and discussed an updated report from its Special Committee which concluded that pursuing these three shareholder-derivative complaints was not in the best interests of the Company. Under Indiana law, the Special Committee s determination may be binding on the pending shareholder-derivative claims and result in the dismissal of these complaints. For a further description of the Special Committee s considerations in arriving at this conclusion see the Company s current report on Form 8-K filed with the SEC on May 25, 2007.

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

Not Applicable.

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PART II

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

The following table shows the quarterly range of high and low sales prices for the Company s Common Shares as reported by The Nasdaq Stock Market for each of the three most recent fiscal years ended May 31. The approximate number of shareholders of record as of July 13, 2006, was 5,774.

	High	Low
2006		
Fourth	$ 39.45	$ 33.64
Third	38.66	34.90
Second	39.09	32.50
First	39.11	33.64
2005		
Fourth	$ 43.32	$ 34.90
Third	49.64	40.53
Second	49.50	43.13
First	49.60	39.69
2004		
Fourth	$ 41.67	$ 37.05
Third	41.25	34.50
Second	36.25	29.56
First	30.95	27.26

The Company paid cash dividends of $0.25, $0.20 and $0.15 per share during fiscal years ending May 31, 2006, 2005 and 2004, respectively.

On June 28, 2006, the Company announced a cash dividend of $0.30, payable July 21, 2006, to shareholders of record at the close of business on July 14, 2006.

Issuer Purchases of Equity Securities

During the quarter ended May 31,2006, the Company had two publicly-announced share repurchase programs outstanding. The first, announced June 30, 2005, approved the purchase of 2,500,000 shares to be automatically purchased daily in equal increments over a twelve-month period. The second, announced December 21, 2005, approved the purchase of shares up to $100 million in open market or privately-negotiated transactions through December 20, 2006. The shares repurchased in the last quarter of fiscal 2006, the average price paid, and shares (or approximate dollar value) remaining available for purchase are as follows:

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 (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans
March 1 31	369,800	$ 35.74	369,800	620,000 shares and $73,851,913
April 1 30	939,900	37.40	939,900	430,000 shares and $45,861,661
May 1 31	220,000	36.08	220,000	210,000 shares and $45,861,661
Total	1,529,700	$ 36.81	1,529,700	210,000 shares and $45,861,661

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Item 6. Selected Financial Data.

The consolidated balance sheets as of May 31, 2006 and 2005 and the consolidated statements of income for the fiscal years ended May 31, 2006, 2005 and 2004 have been restated as set forth in this amended annual report on Form 10-K/A. The data for the consolidated balance sheets as of May 31, 2004, 2003 and 2002 and the consolidated statements of income for the years ended May 31, 2003 and 2002 reflected below have been restated to reflect the impact of additional share-based compensation expense and other adjustments described in the Explanatory Note immediately preceding Part I, Item 1 of this amended annual report on Form 10-K/A, but such restated data has not been audited and is derived from the books and records of the Company. The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes thereto included in Item 8 Consolidated Financial Statements and Supplementary Data of this amended annual report on Form 10-K/A to fully understand the factors that may affect the comparability of the information presented below.

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The impact of the restatement and a comparison to the amounts originally reported as of and for the years ended May 31, 2006, 2005, 2004, 2003 and 2002 are detailed in the tables below.

t Data nds r share	Year Ended May 31, 2006 As Reported	Adjust-ment(3)	As Restated	Year Ended May 31, 2005 As Reported	Adjust-ment(3)	As Restated	Year Ended May 31, 2004 As Reported	Adjust-ment(3)	As Restated	Year Ended May 31, 2003 As Reported	Adjust-ment(3)	As Restated	Year Ended May 31, 2002 As Reported(2)	Adjust-ment(3)	R
	$ 2,025,739	$	$ 2,025,739	$ 1,879,950	$	$ 1,879,950	$ 1,615,253	$	$ 1,615,253	$ 1,390,300	$	$ 1,390,300	$ 1,191,902	$	$
les	582,070	36	582,106	533,096	259	533,355	461,502	664	462,166	407,295	796	408,091	332,727	818	
fit	1,443,669	(36)	1,443,633	1,346,854	(259)	1,346,595	1,153,751	(664)	1,153,087	983,005	(796)	982,209	859,175	(818)	
eneral ative	750,428	(169)	750,259	694,254	2,048	696,302	595,234	4,974	600,208	495,391	6,581	501,972	437,731	7,942	
and ent	84,914	74	84,988	79,696	517	80,213	63,636	1,328	64,964	55,309	1,592	56,901	50,750	1,636	
s nd ent				26,020		26,020	1,250		1,250						
redits)										(5,800)		(5,800)			
	608,327	59	608,386	546,884	(2,824)	544,060	493,631	(6,966)	486,665	438,105	(8,969)	429,136	370,694	(10,396)	
ome, 	2,874	(265)	2,609	2,816	(407)	2,409	15,165	(1,113)	14,052	13,638	(963)	12,675	5,421	(815)	
efore xes and nterest	611,201	(206)	610,995	549,700	(3,231)	546,469	508,796	(8,079)	500,717	451,743	(9,932)	441,811	376,115	(11,211)	
for xes	205,057	30	205,087	198,084	(988)	197,096	176,098	(2,776)	173,322	156,961	(3,320)	153,641	127,665	(3,808)	
efore nterest	406,144	(236)	405,908	351,616	(2,243)	349,373	332,698	(5,303)	327,395	294,782	(6,612)	288,170	248,450	(7,403)	
interest							7,071		7,071	8,081		8,081	8,710		
ne	$ 406,144	$ (236)	$ 405,908	$ 351,616	$ (2,243)	$ 349,373	$ 325,627	$ (5,303)	$ 320,324	$ 286,701	$ (6,612)	$ 280,089	$ 239,740	$ (7,403)	$
per 	$ 1.64	$	$ 1.64	$ 1.39	$ (0.01)	$ 1.38	$ 1.27	$ (0.02)	$ 1.25	$ 1.10	$ (0.02)	$ 1.08	$ 0.89	$ (0.03)	$
	1.63		1.63	1.38	(0.01)	1.37	1.27	(0.02)	1.25	1.10	(0.03)	1.07	0.88	(0.03)	
ed in tation s per 	247,576		247,576	252,387		252,387	255,512		255,512	259,493		259,493	268,475		
	248,430		248,430	254,148		254,148	257,204		257,204	261,394		261,394	271,245		
dends ommon 	$ 0.25	$	$ 0.25	$ 0.20	$	$ 0.20	$ 0.15	$	$ 0.15	$ 0.10	$	$ 0.10	$ 0.09	$	$

Sheet	As of May 31, 2006 Adjust-	As of May 31, 2005 Adjust-	As of May 31, 2004 Adjust-	As of May 31, 2003 Adjust-	As of May 31, 200 Adjust-

ands r share	As Reported	ment(3)	As Restated	As Reported	ment(3)	As Restated	As Reported	ment(3)	As Restated	As Reported	ment(3)	As Restated	As Reported	ment(3)	
capital	$ 794,996	$ 3,695	$ 798,691	$ 672,525	$ 4,913	$ 677,438	$ 807,259	$ 3,459	$ 810,718	$ 845,101	$ 3,608	$ 848,709	$ 715,245	$ 3,255	$
ts	2,263,922	18,725	2,282,647	2,096,577	18,368	2,114,945	1,782,905	7,215	1,790,120	1,672,169	9,234	1,681,403	1,521,723	4,016	
ers	1,716,499	3,695	1,720,194	1,563,931	4,913	1,568,844	1,448,210	3,459	1,451,669	1,286,134	3,608	1,289,742	1,176,479	3,255	

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

(2) Other income, net for fiscal 2002 was adversely impacted by a $9 million charge as a result of equity write-downs in marketable securities and other investments.

(3) See Explanatory Note immediately preceding Part I, Item 1 and Note A of the Notes to Consolidated Financial Statements of this amended annual report on Form 10-K/A.

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

RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

The discussion and analysis set forth in this Item 7 has been amended to reflect the restatement of the Company s financial results, which is more fully described in the Explanatory Note immediately preceding Part I, Item 1 and in Note A, Restatement of Consolidated Financial Statements in the notes to the consolidated financial statements of this amended annual report on Form 10-K/A. The impact of the restatement for the years ended May 31, 2006, 2005 and 2004 was to decrease net income as previously reported by approximately $0.2 million, $2.2 million and $5.3 million, respectively.

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

Overview

Biomet, Inc. (the Company) is engaged in the research, development, manufacturing and marketing of products used primarily by musculoskeletal medical specialists. The Company operates in one business segment, musculoskeletal products, which includes the design, manufacture and marketing of products in four major market segments: reconstructive products, fixation devices, spinal products and other products. Reconstructive products, which represented 68% of the Company s net sales for fiscal year 2006, include knee, hip and extremity joint replacement systems, as well as dental reconstructive implants, bone cements and accessories, the GPS® System and the procedure-specific instrumentation required to implant the Company s reconstructive systems. Fixation devices, which represented 12% of the Company s net sales for fiscal year 2006, include internal and external fixation devices, craniomaxillofacial fixation systems and electrical stimulation devices that do not address the spine. Spinal products, which represented 11% of the Company s net sales for fiscal year 2006, include electrical stimulation devices addressing the spine, spinal fixation systems and orthobiologics. The other product sales category, which represented 9% of the Company s net sales for fiscal year 2006, includes arthroscopy products, softgoods and bracing products, casting materials, general surgical instruments, operating room supplies and other surgical products. Depending on the intended application, the Company reports sales of bone substitute materials in the reconstructive product, fixation device or spinal product segment.

The Company has operations at over 50 locations and distributes its products in over 100 countries throughout the world and manages its operations through three reportable geographic markets: United States, Europe and Rest of World. The solid growth experienced by the Company during fiscal year 2006 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.

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

	Percentage of Net Sales			Percentage Increase (Decrease)	
	2006	2005	2004	2006 vs. 2005	2005 vs. 2004
	(restated)	(restated)	(restated)	(restated)	(restated)
Net sales	100.0%	100.0%	100.0%	8%	16%
Cost of sales	28.7	28.4	28.6	9	15
Gross profit	71.3	71.6	71.4	7	17
Selling, general and administrative expenses	37.0	37.0	37.2	8	16
Research and development expense	4.2	4.2	4.0	6	24
In-process research and development		1.4	0.1	n/m	n/m
Operating income	30.1	29.0	30.1	12	12
Other income, net	0.1	0.1	0.9	8	(83)
Income before income taxes and minority interest	30.1	29.1	31.0	12	9
Provision for income taxes	10.1	10.5	10.8	4	14
Income before minority interest	20.0	18.6	20.2	16	7
Minority interest			0.4	n/m	n/m
Net income	20.0%	18.6%	19.8%	16%	9%

n/m Not Meaningful

Fiscal 2006 Compared to Fiscal 2005*

Net Sales Net sales increased 8% during the current fiscal year to $2,025,739,000 from $1,879,950,000 in 2005. Excluding the negative impact of foreign currency translations (1%), net sales increased 9%. Worldwide sales of reconstructive devices increased 10% to $1,379,420,000 in fiscal 2006 compared to $1,254,234,000 in 2005. Factors contributing to this increase include incremental volume and product mix (11%), offset by currency translation (1%). During the current year, worldwide dental reconstructive product sales increased 14%, knee and extremity sales increased 12%, hip sales increased 9% and bone cement and accessory sales decreased 5%. Bone cement and accessory sales were negatively impacted by the loss of the Company s primary bone cement supplier during the year. The Company introduced its own bone cement during the year and anticipates recapturing some of its lost market share.

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

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

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

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

Sales in the United States increased 7% to $1,325,113,000 during the current fiscal year compared to $1,238,727,000 last year. Components of this increase were incremental volume and product mix (6%) and positive pricing environment (1%). European sales increased 7% to $520,660,000 during the current fiscal year from $487,991,000 in 2005. Components of this increase were incremental volume and product mix (12%), offset by pricing decreases (mainly in bone cements) (1%) and negative currency translation (4%). The Company anticipates foreign currency translations will positively influence sales during fiscal 2007. Sales in Rest of World increased 17% to $179,966,000 this year from $153,232,000 last year. Components of this increase were incremental volume and product mix (19%), offset by pricing decreases (1%) and negative currency translation (1%). The Company commenced direct sales of its products in Japan during fiscal 2002 and continues to experience good product acceptance with growth at approximately 39% for the current fiscal year in local currency.

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

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

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

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

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Other Income, Net Other income, net increased during the current year to $2,609,000 from $2,409,000 in 2005. Other income increased 23% to $14,274,000 from $11,566,000, while interest expense increased 27% to $11,665,000 from $9,157,000. As interest rates increased during fiscal 2006, investment income, as well as interest expense increased. In addition, during fiscal 2006, investment income increased as the Company s cash and investments increased. To reduce the risk of exchange rate gains and losses on transfer of inventory from domestic sites to international sites, the Company has lines of credit in both Europe and Japan in local currencies. (See Note H in the Notes to Consolidated Financial Statements). These lines of credit are used solely to fund inventory purchases and acquisitions in those local currencies.

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

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

Fiscal 2005 Compared to Fiscal 2004

Net Sales Net sales increased 16% during fiscal 2005 to $1,879,950,000 from $1,615,253,000 in 2004. Excluding the positive impact of foreign currency translations (2%), net sales increased 14%. Worldwide sales of reconstructive devices increased 19% to $1,254,234,000 in fiscal 2005 compared to $1,052,865,000 in 2004. Factors contributing to this increase included currency translation (3%), pricing increases (2%) and incremental volume and product mix (14%). During fiscal 2005, worldwide bone cement sales increased 30%, knee sales increased 25%, dental reconstructive product sales increased 16%, extremity sales increased 13% and hip sales increased 11%.

Fixation sales decreased slightly during fiscal 2005 to $246,730,000 from $248,821,000 in 2004. Decreased volume and product mix (2%) offset by positive currency translation (1%) accounted for this decrease. Worldwide sales of craniomaxillofacial products, including bone substitutes, increased 7%, electrical stimulation devices decreased 5%, internal fixation devices increased 1% and external fixation devices decreased 4%. Fixation sales have been negatively impacted by the combination of the Interpore and EB1 salesforces, and at the same time the integration of Biomet s internal fixation salesforce into EBI s fixation salesforce.

Spinal sales increased 34% to $214,039,000 in fiscal 2005 compared to $159,927,000 in 2004. Factors contributing to this increase included the Interpore acquisition (32%), currency translation (1%) and incremental volume and product mix (1%). Worldwide sales of spinal hardware, including orthobiologics, increased 118%, while spinal stimulation products decreased 9%. Spinal sales have been negatively impacted by the combination of the Interpore and EBI salesforces, and at the same time the integration of Biomet s internal fixation salesforce into EBI s fixation salesforce.

Sales of the Company s other products increased 7% to $164,947,000 in fiscal 2005 from $153,640,000 in 2004. Factors contributing to this increase included currency translation (1%), pricing increases (1%) and incremental volume and product mix (5%). Worldwide sales of arthroscopy products increased 12%, softgoods and bracing products decreased 3% and general surgical instrumentation decreased 6%.

Sales in the United States increased 15% to $1,238,727,000 during fiscal 2005 compared to $1,079,532,000 in 2004. Components of this increase were incremental volume and product mix (13%) and positive pricing environment (2%). European sales increased 17% to $487,991,000 during fiscal 2005 from $418,328,000 in 2004. Components of this increase were positive currency translation (7%) and incremental volume and product mix (10%). Sales in Rest of World increased 31% to $153,232,000 in fiscal 2005 from $117,393,000 in 2004.

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Components of this increase were positive currency translation (4%) and incremental volume and product mix (27%). The Company commenced direct sales of its products in Japan during fiscal 2002 and continues to experience good product acceptance with growth at approximately 37% for fiscal 2005 in local currency.

Gross Profit The Company s gross profit increased 17% to $1,346,595,000 in fiscal 2005 from $1,153,087,000 in 2004. The gross profit margin increased to 71.6% of sales in fiscal 2005 compared to 71.4% in 2004. This improvement was realized through a 1% increase in selling prices and improved manufacturing efficiencies, offset by $21.8 million of additional expense in fiscal 2005 as compared to fiscal 2004 as a result of an inventory step-up charge recognized in connection with the purchase of Merck KGaA s 50% interest in the Biomet Merck joint venture and the Interpore acquisition.

Selling, General and Administrative Expenses Selling, general and administrative expenses increased 16% in fiscal 2005 to $696,302,000 compared to $600,208,000 in fiscal 2004. This increase resulted from increased commission expense on higher sales (8%) and an increase in marketing and general and administrative expenses (9%). As a percent of sales, selling, general and administrative expenses was 37.0% in fiscal 2005 and 37.2% in fiscal 2004.

Research and Development Expense Research and development expense increased 24% during fiscal 2005 to $80,213,000 compared to $64,964,000 in 2004. The increase reflected the Company s continued emphasis on new product development and enhancements and additions to its existing product lines and technologies. As a percent of sales, research and development expenses were 4.2% in fiscal 2005 compared to 4.0% in fiscal 2004.

In-Process Research and Development In connection with the Interpore acquisition, the Company assigned $26,020,000 to in-process research and development, which was written off as of the acquisition date.

Operating Income Operating income increased 12% during fiscal 2005 to $544,060,000 from $486,665,000 in 2004. U.S. operating income increased 15% to $505,799,000 from $438,675,000, reflecting solid sales growth for higher-margin product lines. European operating income increased 59% to $75,769,000 compared to $47,595,000 in 2004. Rest of World operating income increased 212% to $12,762,000 in fiscal 2005 from $4,095,000 in 2004. The growth in both Europe and Rest of World operating income reflects solid sales growth, higher gross margins, lower selling expenses and improved foreign currency translation.

Other Income, Net Other income, net decreased during fiscal 2005 to $2,409,000 from $14,052,000 in 2004. Other income decreased 37% to $11,566,000 from $18,299,000, while interest expense increased 116% to $9,157,000 from $4,247,000. During the fourth quarter of fiscal 2004, the Company recorded a $3,362,000 gain on the disposition of an equity investment. Excluding this gain, other income decreased 21% mainly due to the cash used in the acquisitions of Merck KGaA s 50% interest in the Biomet Merck joint venture and Interpore acquisition. Interest expense increased as a result of the $200 million 36-month revolving credit facility entered into and utilized to fund the Interpore acquisition. To reduce the risk of exchange rate gains and losses on transfer of inventory from domestic sites to international sites, the Company has lines of credit in both Europe and Japan in local currencies. (See Note H in the Notes to Consolidated Financial Statements). These lines of credit are used solely to fund inventory purchases and acquisitions in those local currencies.

Provision for Income Taxes The provision for income taxes increased to $197,096,000, or 36.1% of income before income taxes for fiscal 2005 compared to $173,322,000 or 34.6% of income before income taxes last year. The effective income tax rate increased primarily as a result of a $26 million write-off of in-process research and development in connection with the Interpore acquisition not being tax affected, offset by continued expansion of operations in lower tax jurisdictions.

Net Income The factors mentioned above resulted in an 9% increase in net income to $349,373,000 for fiscal 2005 from $320,324,000 in 2004. 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 10% increase in basic earnings per share for 2005 to $1.38 compared to $1.25 in 2004. The purchase of Interpore 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 the additional income associated with the sale of Interpore s products.

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Liquidity & Capital Resources

The Company s cash and investments increased to $225,471,000 at May 31, 2006, from $177,074,000 at May 31,2005. Net cash from operating activities was $413,470,000 in fiscal 2006 compared to $410,920,000 in 2005. The principal sources of cash from operating activities were net income of $405,908,000 and non-cash charges of depreciation and amortization of $82,177,000. The principal use of cash includes an increase in accounts receivable and inventory of $31,284,000 and $69,728,000, respectively. Accounts receivable and inventory 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 $99,065,000 in fiscal 2006 compared to $360,682,000 in 2005. The primary uses of cash for investing activities in fiscal 2006 were purchases of investments and capital expenditures, offset by sales and maturities of investments. Major capital expenditures for the year were expansion of manufacturing facilities in New Jersey and Florida, and purchases of instruments outside the United States to support new product launches and sales growth. Cash flows used in investing activities included the acquisition of Interpore in fiscal 2005.

Cash flows used in financing activities were $257,594,000 in fiscal 2006 compared to $98,270,000 in 2005. The primary uses of funds during the current year were the share repurchase programs, in which $215,430,000 was used to purchase 5,986,000 Common Shares of the Company, and a cash dividend of $0.25 per share paid on July 22, 2005, to shareholders of record on July 15,2005. The source of funds from financing activities was proceeds on the exercise of stock options. On June 28, 2006, the Company s Board of Directors announced a cash dividend of $0.30 per share payable on July 21, 2006, to shareholders of record at the close of business on July 14, 2006.

At May 31, 2006, the Company has three lines of credit outstanding: 1) a 36-month revolving credit facility in the amount of $200 million; 2) a European line of credit in the amount of EUR 100 million ($126 million); and 3) a Japanese line of credit in the amount of YEN 4.5 billion ($39.5 million). The total amount available under these lines of credit at May 31, 2006, is approximately $92 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 2007 will be reduced slightly from fiscal 2006. 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 $350 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 C of the Notes to Consolidated Financial Statements. In management s opinion, the Company s critical accounting policies include revenue recognition, excess and obsolete inventory, goodwill and intangible assets, and accrued insurance.

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

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

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

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

Share-Based Compensation and Sensitivity Analysis As discussed in the Explanatory Note immediately preceding Part I, Item 1 of this amended annual report on Form 10-K/A, based upon the information from the Special Committee s investigation, from 1996 through 2006, the Company had a practice in many instances of opportunistic misdating and mispricing of options in order to take advantage of a lower share price, without disclosing this practice in its public filings and without properly measuring share-based compensation expense beginning on the date the terms of the stock option award were finalized. Due to a lack of documentation and process surrounding the Company s administration of its stock option plans, the Company s estimate of the appropriate measurement date was based on the date of grant documentation such as e-mails, spreadsheets listing the employees and the number of shares to be granted to such employees, and other correspondence or documentation related to the award.

As described above, judgment was exercised by the Company in determining the appropriate alternative measurement date for each of the stock option awards in question. The use of a different alternative measurement date than that used by the Company could have resulted in different share-based compensation expense than those recorded in this amended annual report on Form 10-K/A. The Company performed sensitivity analysis of the effect on share-based compensation expense of using different approaches for selecting alternative measurement dates than the approach used to record share-based compensation expense in this amended annual report on Form 10-K/A.

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Presented below is a summary that illustrates the impact of different approaches of measuring additional share-based compensation expense from fiscal 1996 to 2006. The summary below excludes distributor stock options expense arising from Distributor Awards (as these awards are accounted for under EITF 96-18) and is presented after considering forfeitures and vesting (dollars in thousands).

			Sensitivity Analysis			
Year	Additional Share-Based Compensation Expense (Pre-Tax) (1)	Error as a % of Pre-Tax Income (1)	Additional Share-Based Compensation Using End Date Alternative (Pre-Tax) (2)	Error as a % of Pre-Tax Income (2)	Additional Share-Based Compensation Using High Price Alternative (Pre-Tax) (3)	Error as a % of Pre-Tax Income (3)
1996	$ 26	.0%	$ 45	.0%	$ 68	.0%
1997	516	.3%	842	.5%	1,266	.7%
1998	1,071	.5%	1,853	.9%	2,789	1.3%
1999	2,068	1.0%	3,550	1.8%	5,342	2.7%
2000	4,371	1.6%	7,543	2.7%	11,350	4.0%
2001	5,517	1.8%	9,531	3.0%	14,342	4.6%
2002	5,556	1.5%	9,603	2.6%	14,449	3.8%
2003	4,887	1.1%	8,457	1.9%	12,726	2.8%
1996 - 2003 (4)	24,013		41,424		62,332	
2004	3,875	.78%	6,736	1.3%	10,136	2.0%
2005	2,792	.51%	4,860	0.9%	7,313	1.3%
2006	2,449	.40%	4,366	0.7%	6,569	1.1%
Total (4)	$ 33,129		$ 57,386		$ 86,350	

(1) The additional share-based compensation expense was calculated using the alternative measurement date used to determine the additional share-based compensation expense under APB No. 25 as reflected in the Consolidated Financial Statements included in this amended annual report on Form 10-K/A (the *APB No. 25 Measurement Date*). Generally, the APB No. 25 Measurement Date was the first date available to the Company to select an alternative measurement date under APB No. 25.

(2) For all awards in which the APB No. 25 Measurement Date was not based on documentation which indicated with certainty that the price and number of shares of the award had been fixed with finality by that date, additional share-based compensation expense reflected in the end date alternative was calculated using the first date when such awards appeared in a calculation supporting numbers included in a quarterly report on Form 10-Q or annual report on Form 10-K (the *End Date*). This End Date was used because it represents the first date on which the Company believed the exercise price and number of shares underlying the award were fixed with certainty. For all awards in which the APB No. 25 Measurement Date was based on documentation which indicated with certainty that the price and number of shares of the award had been fixed with finality by that date, the additional share-based compensation expense reflected in the end date alternative was calculated using the APB No. 25 Measurement Date.

(3) For all awards in which the APB No. 25 Measurement Date was not based on documentation which indicated with certainty that the price and number of shares of the award had been fixed with finality by that date, additional share-based compensation expense reflected in the high price alternative was calculated using the highest stock price between the APB No. 25 Measurement Date and the End Date. For all awards in which the APB No. 25 Measurement Date was based on documentation which indicated with certainty that the price and number of shares of the award had been fixed with finality by that date, the additional share-based compensation expense reflected in the high price alternative was calculated using the highest stock price between the grant date reflected in the original award documentation and the APB No. 25 Measurement Date.

(4) Amounts in table may not foot or cross-foot due to rounding.

In addition to the approximately $33.1 million of additional share-based compensation expense reflected above, the Company estimates that the amount of pre-tax additional share-based compensation expense under APB No. 25 Accounting for Stock Issued to Employees, which was both attributable to the results of the Special Committee s investigation and related to nonvested stock options and not yet recognized was approximately $9.9 million as of May 31, 2006. The Company adopted SFAS No. 123(R), Share-Based Payment, (SFAS 123R) on June 1, 2006 using the modified prospective method and will recognize share-based compensation expense related to nonvested stock options in appropriate

periods following May 31, 2006 in accordance with SFAS 123R.

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

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Quarterly Results.

(in thousands, except earnings per share)

	1st Qtr.			2nd Qtr.			3rd Qtr.			4th Qtr.			Year		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
2006															
Net sales	$ 484,903	$	$ 484,903	$ 494,690	$	$ 494,690	$ 506,254	$	$ 506,254	$ 539,892	$	$ 539,892	$ 2,025,739	$	$ 2,025,739
Gross profit	350,408	(86)	350,322	355,079	(114)	354,965	363,193	(97)	363,096	374,989	260	375,249	1,443,669	(36)	1,443,633
Net income(2)	100,299	(614)	99,685	101,278	(802)	100,476	106,065	(685)	105,380	98,502	1,865	100,367	406,144	(236)	405,908
Earnings per share:(1)															
Basic	0.40		0.40	0.41		0.41	0.43	(0.01)	0.42	0.40	0.01	0.41	1.64		1.64
Diluted	0.40		0.40	0.41	(0.01)	0.40	0.43	(0.01)	0.42	0.40	0.01	0.41	1.63		1.63
2005															
Net sales	$ 438,160	$	$ 438,160	$ 456,674	$	$ 456,674	$ 482,023	$	$ 482,023	$ 503,093	$	$ 503,093	$ 1,879,950	$	$ 1,879,950
Gross profit	312,188	(186)	312,002	325,559	(188)	325,371	343,955	(139)	343,816	365,152	254	365,406	1,346,854	(259)	1,346,595
Net income(3)	60,433	(1,414)	59,019	91,199	(1,410)	89,789	96,784	(1,074)	95,710	103,200	1,655	104,855	351,616	(2,243)	349,373
Earnings per share:(1)															
Basic	0.24	(0.01)	0.23	0.36		0.36	0.38	(0.01)	0.37	0.41	0.01	0.42	1.39	(0.01)	1.38
Diluted	0.24	(0.01)	0.23	0.36	(0.01)	0.35	0.38	(0.01)	0.37	0.41	0.01	0.42	1.38	(0.01)	1.37
2004															
Net sales	$ 370,319	$	$ 370,319	$ 387,561	$	$ 387,561	$ 410,185	$	$ 410,185	$ 447,188	$	$ 447,188	$ 1,615,253	$	$ 1,615,253
Gross profit	264,701	(178)	264,523	278,771	(233)	278,538	294,193	(255)	293,938	316,086	2	316,088	1,153,751	(664)	1,153,087
Net income	76,478	(1,329)	75,149	82,692	(1,824)	80,868	86,600	(1,974)	84,626	79,857	(176)	79,681	325,627	(5,303)	320,324
Earnings per share:(1)															
Basic	0.30		0.30	0.32	(0.01)	0.31	0.34	(0.01)	0.33	0.31		0.31	1.27	(0.02)	1.25
Diluted	0.30		0.30	0.32	(0.01)	0.31	0.34	(0.01)	0.33	0.31		0.31	1.27	(0.02)	1.25

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

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

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

(4) Net income for the fourth quarter of fiscal 2004 was adversely impacted by a $25 million pre-tax charge as a result of a change in the Company s estimate for bad debt allowances on its domestic insurance receivables.

(5) In addition to this amended annual report on Form 10-K/A, the Company expects to separately amend its quarterly report on Form 10-Q for the period ended August 31, 2006 and separately file its quarterly reports on Form 10-Q for the periods ended November 30, 2006 and February 28, 2007. For additional quarterly line item disclosures relating to the restatement reflected in this amended annual report on Form 10-K/A, see Note N of the Notes to Consolidated Financial Statements included in Item 8 to this amended annual report on Form 10-K/A.

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

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

In connection with the Interpore acquisition, the Company entered into a 36-month revolving credit facility in the amount of $200 million. The Company also maintains unsecured lines of credit in countries in which it has significant intercompany transactions in an effort to minimize currency rate risks. At May 31, 2006 and 2005, the Company had lines of credit of EUR 100 million ($126 million) and EUR 100 million ($129 million), respectively, in Europe and YEN 4.5 billion ($39.5 million) and YEN 4.3 billion ($41 million), respectively, in Japan. Outstanding borrowings under all lines of credit bear interest at a variable rate of the lender s interbank rate plus an applicable margin and, accordingly, changes in interest rates would impact the Company s cost of financing.

The Company does not have any investments that would be classified as trading securities under generally accepted accounting principles. The Company s non-trading investments, excluding cash and cash equivalents, consist of certificates of deposit, debt securities, equity securities and mortgage-backed securities. The debt securities include municipal bonds, with fixed rates, and preferred stocks, which pay quarterly fixed rate dividends. These financial instruments are subject to market risk in that changes in interest rates would impact the market value of such investments. The Company generally does not utilize derivatives to hedge against increases in interest rates which decrease market values, except for one of its investment managers who utilizes U.S. Treasury bond futures options (futures options) as a protection against the impact of increases in interest rates on the fair value of preferred stocks managed by that investment manager. The Company marks any outstanding futures options to market and market value changes are recognized in current earnings. The futures options generally have terms ranging from 90 to 180 days. Net realized gains (losses) on sales of futures options aggregated ($136,000) and ($360,000) for the years ended May 31, 2006 and 2005, respectively, and unrealized gains (losses) on outstanding futures options at May 31, 2006 and 2005, aggregated ($19,000) and ($5,000), respectively.

Based on the Company s overall interest rate exposure at May 31, 2006, including variable rate debt and fixed rate preferred stocks, a hypothetical 10 percent change in interest rates applied to the fair value of the financial instruments as of May 31, 2006, would not have a material impact on earnings, cash flows or fair values of interest rate risk sensitive instruments over a one-year period.

The Company s foreign currency risk exposure results from fluctuating currency exchange rates, primarily the U.S. dollar against the European currencies. The Company faces transactional currency exposures that arise when its foreign subsidiaries (or the Company itself) enter into transactions, generally on an intercompany basis, denominated in currencies other than their local currency. The Company also faces currency exposure that arises from translating the results of its global operations to the U.S. dollar at exchange rates that have fluctuated from the beginning of the period. The Company has not used financial derivatives to hedge against fluctuations in currency exchange rates. Based on the Company s overall exposure for foreign currency at May 31, 2006, a hypothetical 10 percent change in foreign currency rates would not have a material impact on the Company s balance sheet, net sales, net income or cash flows over a one-year period.

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Item 8. Financial Statements and Supplementary Data.

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2. Financial Statement Schedule:

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

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Management s Report on Internal Control over Financial Reporting (As Revised).

The management of Biomet, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting for the Company (including its consolidated subsidiaries) and all related information appearing in this amended annual report on Form 10-K/A. Internal control over financial reporting is a process designed by, or under the supervision of, the current Chief Executive Officer and Interim Chief Financial Officer, and effected by the Board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In Management s Report of Internal Controls Over Financial Reporting included in the Company s original annual report on Form 10-K for the fiscal year ended May 31, 2006 filed with the SEC on August 11, 2006, the Company s management concluded that the Company s internal control over financial reporting was effective as of May 31, 2006. Subsequently, management identified deficiencies in the Company s internal control over financial reporting with respect to its controls over the granting, administration, and accounting for stock options, namely, the Company did not maintain effective controls over the completeness, valuation, presentation and disclosure of share-based expense. As of May 31, 2006 the Company did not have an effective control designed and in place over the establishment of the appropriate grant date or the measurement date for determining share-based expense. These deficiencies resulted in the misstatement of the Company s share-based expense, payroll and other employee taxes, additional paid-in capital accounts, related income tax accounts, retained earnings, related financial disclosures and other accounts and resulted in this amended report to restate the Company s consolidated financial statements for each of the fiscal years ended May 31, 2006, 2005 and 2004 as discussed in Note A to the consolidated financial statements.

A material weakness is a significant deficiency, or combination of significant deficiencies that result in there being a more than remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected. Public Company Accounting Oversight Board Auditing Standard No. 2 provides that the restatement of previously issued financial statements to reflect the correction of misstatements is a strong indicator of the existence of a material weakness in internal control over financial reporting.

As a result of the deficiencies described above, the Company s current management has revised the Company s earlier assessment and has now concluded that the Company had a material weakness as of May 31, 2006 and, therefore, the Company s internal control over financial reporting was not effective as of such date.

The framework on which such reevaluation was based is contained in the report entitled Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the *COSO Report*).

Management s revised assessment of the Company s internal control over financial reporting as of May 31, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which appears on page 43.

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

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

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting (as revised) on page 42, that Biomet, Inc. did not maintain effective internal control over financial reporting as of May 31, 2006, because of the effects of inadequate control over the granting, administration, and accounting for stock options, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Biomet, Inc. s management is responsible for establishing and maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

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

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated July 28, 2006, we expressed an unqualified opinion on management s assessment that the Company maintained effective internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting. As described in the following paragraph the Company subsequently identified misstatements in its financial statements for 2006 and prior years, necessitating the restatement of the Company s financial statements. The internal control deficiencies which led to the restatement are considered to be a material weakness as further discussed in the following paragraph. Accordingly, management has revised its assessment about the effectiveness of the Company s internal control over financial reporting and our present opinion on the effectiveness of the Company s internal control over financial reporting as of May 31, 2006, as expressed herein, is different from that expressed in our previous report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management s revised assessment. The Company had ineffective internal control over financial reporting with respect to the

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granting, administration, and accounting for stock options, namely, the Company did not maintain effective control over the completeness, valuation, presentation and disclosure of share based expense. As of May 31, 2006, the Company did not have effective controls designed and in place over the establishment of the appropriate grant date or the measurement date for determining share-based expense.

This material weakness resulted in the misstatement of the Company s share-based expense, payroll and other employee taxes, additional paid-in capital accounts, related income tax accounts, retained earnings, related financial disclosures and other accounts and resulted in a restatement of the Company s previously issued annual financial statements for the years ended May 31, 2006, 2005 and 2004, as described more fully in Note A to the consolidated financial statements. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2006 consolidated financial statements (as restated) of the Company and this report does not affect our report dated July 28, 2006, except for Note A, as to which the date is May 23, 2007, on those financial statements.

In our opinion, management s revised assessment that Biomet, Inc. did not maintain effective internal control over financial reporting as of May 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Biomet, Inc. has not maintained effective internal control over financial reporting as of May 31, 2006, based on the COSO criteria.

/s/ Ernst & Young LLP

Fort Wayne, Indiana

July 28, 2006, except for the effects of the material weakness described in the sixth and seventh paragraphs above, as to which the date is May 23, 2007

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Report of Independent Registered Public Accounting Firm.

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

We have audited the accompanying consolidated balance sheets of Biomet, Inc. and subsidiaries as of May 31, 2006 and 2005, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended May 31, 2006. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Biomet, Inc. and subsidiaries at May 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2006 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As described in Note A, Restatement of Consolidated Financial Statements , the Company has restated previously issued financial statements as of May 31, 2006 and 2005 and for each of the three years in the period ended May 31, 2006 to correct its accounting for certain share-based expense and related payroll taxes.

We have also audited in accordance with standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Biomet Inc. s internal control over financial reporting as of May 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 28, 2006 except for the effects of the material weakness described in that report as to which the date is May 23, 2007, expressed an unqualified opinion on management s revised assessment of the effectiveness of internal control over financial reporting and an adverse opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ Ernst & Young LLP

Fort Wayne, Indiana

July 28, 2006, except for Note A, as

to which the date is May 23, 2007

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Biomet, Inc. & Subsidiaries

Consolidated Balance Sheets.

At May 31,

(in thousands, except par value)

	2006 (restated)	2005 (restated)
Assets		
Current assets:		
Cash and cash equivalents	$ 160,963	$ 104,706
Investments	6,380	10,962
Accounts and notes receivable, less allowance for doubtful receivables (2006 $69,134 and 2005 $59,513)	507,883	479,745
Inventories	534,515	469,791
Refundable income taxes	16,880	15,989
Deferred income taxes	75,190	75,111
Prepaid expenses and other	32,342	35,980
Total current assets	1,334,153	1,192,284
Property, plant and equipment:		
Land and improvements	24,944	24,297
Buildings and improvements	154,101	145,928
Machinery and equipment	476,387	404,173
	655,432	574,398
Less, Accumulated depreciation	297,800	251,511
Property, plant and equipment, net	357,632	322,887
Investments	58,128	61,406
Goodwill	441,397	435,621
Other intangible assets	79,498	87,835
Other assets	11,839	14,912
Total assets	$ 2,282,647	$ 2,114,945
Liabilities & Shareholders Equity		
Current liabilities:		
Short-term borrowings	$ 276,561	$ 282,193
Accounts payable	62,276	57,021
Accrued wages and commissions	84,665	85,351
Other accrued expenses	111,960	90,281
Total current liabilities	535,462	514,846
Deferred income taxes	26,991	31,255
Total liabilities	562,453	546,101

Commitments and contingencies (Note N)

Shareholders equity:		
Preferred shares, $100 par value: Authorized 5 shares; none issued		
Common shares, without par value: Authorized 500,000 shares; issued and outstanding 2006 244,976 shares and 2005 249,879 shares	206,633	188,162
Additional paid-in capital	116,528	112,284
Retained earnings	1,379,303	1,245,147
Accumulated other comprehensive income	17,730	23,251
Total shareholders equity	1,720,194	1,568,844
Total liabilities and shareholders equity	$ 2,282,647	$ 2,114,945

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

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Biomet, Inc. & Subsidiaries

Consolidated Statements of Income.

For the years ended May 31,

(in thousands, except per share amounts)

	2006	2005	2004
	(restated)	(restated)	(restated)
Net sales	$ 2,025,739	$ 1,879,950	$ 1,615,253
Cost of sales	582,106	533,355	462,166
Gross profit	1,443,633	1,346,595	1,153,087
Selling, general and administrative expenses	750,259	696,302	600,208
Research and development expense	84,988	80,213	64,964
In-process research and development		26,020	1,250
Operating income	608,386	544,060	486,665
Other income, net	14,274	11,566	18,299
Interest expense	(11,665)	(9,157)	(4,247)
Income before income taxes and minority interest	610,995	546,469	500,717
Provision for income taxes	205,087	197,096	173,322
Income before minority interest	405,908	349,373	327,395
Minority interest			7,071
Net income	$ 405,908	$ 349,373	$ 320,324
Earnings per share:			
Basic	$ 1.64	$ 1.38	$ 1.25
Diluted	1.63	1.37	1.25
Shares used in the computation of earnings per share:			
Basic	247,576	252,387	255,512
Diluted	248,430	254,148	257,204

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

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Biomet, Inc. & Subsidiaries

Consolidated Statements of Shareholders Equity.

	Common Shares		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
(in thousands, except per share amounts)	**Number**	**Amount**	**(restated)**	**(restated)**	**(restated)**	**(restated)**
Balance at June 1, 2003, as previously reported	257,489	$ 141,931	$ 54,081	$ 1,100,462	$ (10,340)	$ 1,286,134
Adjustment to opening shareholders equity			35,819	(32,211)		3,608
Beginning balance (restated)	257,489	141,931	89,900	1,068,251	(10,340)	1,289,742
Net income				320,324		320,324
Change in unrealized holding value on investments, net of $71 tax effect					133	133
Reclassification adjustment for losses included in net income, net of $158 tax effect					(294)	(294)
Currency translation adjustments					12,384	12,384
Comprehensive income						332,547
Exercise of stock options	1,921	28,208				28,208
Compensation expense			3,462			3,462
Tax benefit from exercise of stock options			7,645			7,645
Purchase of shares	(5,148)	(2,838)	(1,083)	(168,803)		(172,724)
Cash dividends ($.15 per common share)				(38,604)		(38,604)
Other			1,393			1,393
Balance at May 31, 2004 (restated)	254,262	167,301	101,317	1,181,168	1,883	1,451,669
Net income				349,373		349,373
Change in unrealized holding value on investments, net of $76 tax effect					142	142
Reclassification adjustment for losses included in net income, net of $76 tax effect					141	141
Currency translation adjustments					21,085	21,085
Comprehensive income						370,741
Exercise of stock options	1,360	24,640				24,640
Compensation expense			2,741			2,741
Tax benefit from exercise of stock options			7,730			7,730
Purchase of shares	(5,743)	(3,779)	(1,362)	(234,522)		(239,663)
Cash dividends ($.20 per common share)				(50,872)		(50,872)
Other			1,858			1,858
Balance at May 31, 2005 (restated)	249,879	188,162	112,284	1,245,147	23,251	1,568,844
Net income				405,908		405,908
Change in unrealized holding value on investments, net of $591 tax effect					1,098	1,098
Reclassification adjustment for losses included in net income, net of $366 tax effect					(678)	(678)
Currency translation adjustments					(5,941)	(5,941)
Comprehensive income						400,387
Exercise of stock options	1,083	23,002				23,002

Compensation expense			1,985			1,985
Tax benefit from exercise of stock options			2,240			2,240
Purchase of shares	(5,986)	(4,531)	(1,620)	(209,279)		(215,430)
Cash dividends ($.25 per common share)				(62,473)		(62,473)
Other			1,639			1,639
Balance at May 31, 2006 (restated)	244,976	$ 206,633	$ 116,528	$ 1,379,303	$ 17,730	$ 1,720,194

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

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Biomet, Inc. & Subsidiaries

Consolidated Statements of Cash Flows.

For the years ended May 31,

(in thousands)

	2006 (restated)	2005 (restated)	2004 (restated)
Cash flows from (used in) operating activities:			
Net income	$ 405,908	$ 349,373	$ 320,324
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	71,976	61,781	52,461
Amortization	10,201	7,821	5,757
Write-off of in-process research and development		26,020	1,250
Minority interest			7,071
Share-based expense	1,985	2,741	3,462
Other	1,130	(19)	(214)
Deferred income taxes	(4,356)	3,847	(12,854)
Tax benefit from exercise of stock options	2,240	7,730	7,645
Changes in current assets and liabilities, excluding effects of acquisitions and dispositions:			
Accounts and notes receivable	(31,284)	16,265	(29,955)
Inventories	(69,728)	(42,188)	2,888
Accounts payable	4,030	(5,927)	10,949
Other	21,368	(16,524)	17,305
Net cash from operating activities	413,470	410,920	386,089
Cash flows from (used in) investing activities:			
Proceeds from sales and maturities of investments	77,400	62,344	236,360
Purchases of investments	(68,621)	(57,890)	(119,819)
Capital expenditures	(108,912)	(97,372)	(61,342)
Acquisitions, net of cash acquired		(266,229)	(307,475)
Other	1,068	(1,535)	(1,205)
Net cash used in investing activities	(99,065)	(360,682)	(253,481)
Cash flows from (used in) financing activities:			
Increase (decrease) in short-term borrowings	(2,693)	167,624	(11,487)
Issuance of shares	23,002	24,640	28,208
Cash dividends	(62,473)	(50,871)	(38,604)
Purchase of common shares	(215,430)	(239,663)	(172,724)
Net cash used in financing activities	(257,594)	(98,270)	(194,607)
Effect of exchange rate changes on cash	(554)	(6,505)	(4,408)
Increase (decrease) in cash and cash equivalents	56,257	(54,537)	(66,407)
Cash and cash equivalents, beginning of year	104,706	159,243	225,650
Cash and cash equivalents, end of year	$ 160,963	$ 104,706	$ 159,243

Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 11,342	$ 8,666	$ 3,657
Income taxes	216,431	196,295	176,374

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

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements.

Note A: Restatement of Consolidated Financial Statements.

In accordance with FASB Statement No. 154, Accounting Changes and Error Corrections, the consolidated statements of income, shareholders equity and cash flows for the years ended May 31, 2006, 2005 and 2004 and the consolidated balance sheets at May 31, 2006 and 2005 have been restated for certain errors related to the measurement of share based compensation expense, distributor option expense and related payroll and withholding taxes, penalties and interest. In addition, Notes B (Nature of Operations), C (Accounting Policies), J (Stock Option Plans), K (Shareholders Equity and Earnings Per Share), L (Income Taxes), M (Segment Data), N (Commitments and Contingencies) and O (Quarterly Financial Information) have been revised as a result of the restatement.

The Company s decision to restate its financial results was based on the results of an independent investigation of the Company s stock option grants for the period from March 1996 through May 2006 by a special committee (the *Special Committee)* formed by the Company s Board of Directors (the *Board)* following the publication of an analyst report suggesting that certain historical stock option grants took place on dates where the Company s stock price was trading at relatively low prices and the filing of two shareholder derivative lawsuits alleging improper backdating of stock options. The Special Committee retained independent counsel to advise it in connection with and to conduct its investigation. Counsel to the Special Committee also hired independent accountants to assist in the investigation.

During the period from March 1996 to May 2006, the Company granted stock option awards to purchase approximately 17,000,000 Biomet common shares.

Under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, or APB No. 25 , a measurement date is required to be selected for each stock option award. The measurement date is the first date on which the number of shares that an individual employee is entitled to receive and the option exercise price are both known. Compensation expense must be recognized for the excess, if any, of the quoted market price of the stock on the measurement date over the exercise price.

In many instances, the Company selected option grant dates (stated grant dates) and corresponding option exercise prices that were before the date that both the number of shares that an individual is entitled to receive and the exercise price had been finalized. The special Committee concluded that there was opportunistic misdating and mispricing of options in order to take advantage of lower exercise prices. The Company also deemed the stated grant date to be the measurement date resulting in no compensation expense for those options in the financial statements as previously reported. For purposes of establishing the measurement date for accounting purposes, the practice of using the stated grant date rather than the date that the number of shares that an individual is entitled to receive and the exercise price were finalized resulted in incorrect measurement dates and financial statement errors. In connection with this amended annual report on Form 10-K/A, the Company has examined the best evidence available, including but not limited to, electronic and physical documents related to the awards and interviews with individuals involved in the administration of the Company s stock option program during the 11-year period, in order to determine the appropriate measurement dates and correct these errors.

In addition, there were 866,000 options awarded to non-employee distributors during the 11 year period of the investigation. Prior to fiscal 2003, the Company did not record expense for options granted to non-employee distributors. Subsequent to 2002, the Company began recording expense based on EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquisition, or in Conjunction with Selling, Goods or Services. The Company has calculated (or recalculated in the case of fiscal years subsequent to 2002) expense for awards to non-employee distributors in accordance with EITF 96-18 for the 11 year period. EITF 96-18 requires the Company to measure the fair value of the Distributor Awards at the date of grant and then remeasure fair value at each subsequent reporting period over the vesting period of the award.

There are various negative tax consequences to employees as a result of the Company s historical stock option granting practices. As was recommended by the Special Committee, the Company is considering alternatives to potentially address some or all of these consequences.

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

The payroll and withholding tax treatment of a stock option granted to a U.S. employee or other service provider depends on whether the stock option qualifies as an Incentive Stock Option (ISO) or a Non-Qualified Stock Option (NQO). An ISO is a stock option that satisfies certain requirements set forth in Internal Revenue Code Section 422, including a requirement that the exercise price of the stock option may not be less than the fair market value of the underlying shares on the date of grant. An NQO is any stock option that does not satisfy the requirements to be treated as an ISO.

Upon exercise of an NQO, we are required, to the extent applicable, to (1) withhold the optionholder s share of social security, Medicare and other employment taxes (which we collectively refer to as payroll taxes) and any federal, state or local income tax and (2) pay Biomet s share of payroll taxes. However, upon exercise of an ISO, we are not required to withhold any income taxes nor are we required to withhold or pay any payroll taxes.

Our stock options granted during the 11-year period were generally intended to qualify as ISOs and accordingly, except for federal withholding in certain instances with respect to same day sales, we did not withhold federal income taxes, state income taxes or the employee s share of social security, Medicare and other employment taxes upon exercise of these options, nor did we pay the employer s share of social security, Medicare and other employment taxes. However, as described above, approximately eighty percent of our stock options granted during this period were subject to revised measurement dates. Any stock option that was granted with an exercise price less than the fair market value of the underlying shares on the revised measurement date would not have qualified as an ISO and should have been treated as an NQO for payroll and withholding tax purposes. In these cases, we have accrued payroll and withholding taxes, penalties and interest for stock options and included these amounts in the restated financial statements.

In preparing the restatement reflected in this amended annual report on Form 10-K/A we have assumed a normal statute of limitations on the assessment of payroll and withholding taxes. Thus, we have reversed expense recorded in prior periods and as a result recognized a benefit in the period in which the statute of limitations for the respective option exercise expires in an aggregate amount of $14.3 million. However, the statute of limitations may not apply in the case of a false or fraudulent return with the intent to evade tax or in the case of a willful attempt in any manner to defeat or evade any employment or withholding tax. If the statute of limitations were determined not to have expired the benefit previously recognized could be deemed to be payable. The Company believes there was no intent to evade paying taxes.

In most instances, ISOs which were exercised as a same-day sale were properly treated as a disqualifying disposition and the income was reported on the individuals Form W-2. In these situations, we accrued payroll taxes, penalties and interest but did not accrue federal or state income taxes as the income from the disqualifying disposition of stock options was included on the employee s Form W-2 and applicable federal and state income taxes were paid by the employee. For certain ISOs which subsequently converted to a NQO stock option, we accrued federal and state income taxes, payroll taxes, penalties and interest at the applicable rates, if the income was not reported on the individuals Form W-2.

The combination of taxes, penalties and interest resulted in a net compensation charge of $21.4 million for fiscal years 1996 through 2006.

We believe that the unpaid employee portion of taxes represents joint and several obligations of both us and our employees. However, the change of status of employee options from ISO to NQO was a result of flaws in our stock option granting practices as discussed above. We believe that the employees would likely have a valid claim against us in the event we attempted to recover a portion of the additional taxes, penalties and interest from them. Accordingly, we believe it is appropriate to accrue both the employee and the employer portions of all taxes. In addition, we believe such additional taxes, penalties and interest should be recorded in the respective years in which the underlying in-the-money options were exercised.

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

The impact of the adjustments resulting from the above errors are presented below:

	Additional Share-Based Compensation Expense (Pre-Tax)(1)	Additional Distributor Stock Options Expense (Pre-Tax)(2)	Additional Payroll and Withholding Taxes (Pre-Tax)	Total Additional Expense (Pre-Tax)	Tax Effect	After-Tax Expense
1996	$ 26	$ 132	$	$ 158	$ 58	$ 100
1997	516	305	7	828	269	559
1998	1,071	725	335	2,131	686	1,445
1999	2,068	1,121	1,020	4,209	1,415	2,794
2000	4,371	1,226	1,424	7,021	2,312	4,709
2001	5,517	1,079	6,023	12,619	4,030	8,589
2002	5,556	1,307	4,348	11,211	3,808	7,403
2003	4,887	124	4,921	9,932	3,320	6,612
Total 1996-2003 effect (3)	24,013	6,019	18,078	48,109	15,898	32,211
2004	3,875	(413)	4,617	8,079	2,776	5,303
2005	2,792	(51)	490	3,231	988	2,243
2006	2,449	(464)	(1,779)	206	(30)	236
Total 2004-2006 effect (3)	9,116	(928)	3,328	11,516	3,734	7,782
Total effect (3)	$ 33,129	$ 5,091	$ 21,406	$ 59,626	$ 19,632	$ 39,994

(1) Under APB No. 25, additional share-based compensation expense was calculated above as the excess of the fair market value of the Company s common shares on the applicable measurement date less the exercise price of the stock option award multiplied by the number of shares subject to the stock option award in question. Share-based compensation expense is recognized ratably over the vesting period of each stock option award, a period which was typically between 3 and 8 years with respect to the stock option awards in question.

(2) Under EITF 96-18, additional distributor stock options expense is measured above based on the fair value of the Distributor Award at the date of grant and then remeasured at each subsequent reporting period over the vesting period of the award.

(3) Amounts in table may not foot or cross-foot due to rounding.

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

The following sets forth the effects of the restatement on the Company s consolidated balance sheets as of May 31, 2006 and 2005 and the Company s consolidated statements of income and consolidated statements of cash flows for the years ended May 31, 2006, 2005 and 2004.

	May 31, 2006 (in thousands, except par value)			May 31, 2005 (in thousands, except par value)		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Assets						
Current assets:						
Cash and cash equivalents	$ 160,963		$ 160,963	$ 104,706		$ 104,706
Investments	6,380		6,380	10,962		10,962
Accounts and notes receivable, less allowance for doubtful receivables (2006 $69,134 and 2005 $59,513)	507,883		507,883	479,745		479,745
Inventories	534,515		534,515	469,791		469,791
Refundable income taxes		16,880	16,880		15,989	15,989
Deferred income taxes	73,345	1,845	75,190	72,732	2,379	75,111
Prepaid expenses and other	32,342		32,342	35,980		35,980
Total current assets	1,315,428	18,725	1,334,153	1,173,916	18,368	1,192,284
Property, plant and equipment:						
Land and improvements	24,944		24,944	24,297		24,297
Buildings and improvements	154,101		154,101	145,928		145,928
Machinery and equipment	476,387		476,387	404,173		404,173
	655,432		655,432	574,398		574,398
Less, Accumulated depreciation	297,800		297,800	251,511		251,511
Property, plant and equipment, net	357,632		357,632	322,887		322,887
Investments	58,128		58,128	61,406		61,406
Goodwill	441,397		441,397	435,621		435,621
Other intangible assets	79,498		79,498	87,835		87,835
Other assets	11,839		11,839	14,912		14,912
Total assets	$ 2,263,922	$ 18,725	$ 2,282,647	$ 2,096,577	$ 18,368	$ 2,114,945

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

	May 31, 2006 (in thousands, except par value)			May 31, 2005 (in thousands, except par value)		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Liabilities & Shareholders Equity						
Current liabilities:						
Short-term borrowings	$ 276,561		$ 276,561	$ 282,193		$ 282,193
Accounts payable	62,276		62,276	57,021		57,021
Accrued income taxes	6,356	(6,356)		9,725	(9,725)	
Accrued wages and commissions	63,279	21,386	84,665	62,171	23,180	85,351
Other accrued expenses	111,960		111,960	90,281		90,281
Total current liabilities	520,432	15,030	535,462	501,391	13,455	514,846
Deferred income taxes	26,991		26,991	31,255		31,255
Total liabilities	547,423	15,030	562,453	532,646	13,455	546,101
Commitments and contingencies (Note N)						
Shareholders equity:						
Preferred shares, $100 par value: Authorized 5 shares; none issued						
Common shares, without par value: Authorized 500,000 shares; issued and outstanding 2006 244,976, and 2005 249,879 shares	206,633		206,633	188,162		188,162
Additional paid-in capital	72,839	43,689	116,528	67,613	44,671	112,284
Retained earnings	1,419,297	(39,994)	1,379,303	1,284,905	(39,758)	1,245,147
Accumulated other comprehensive income	17,730		17,730	23,251		23,251
Total shareholders equity	1,716,499	3,695	1,720,194	1,563,931	4,913	1,568,844
Total liabilities and shareholders equity	$ 2,263,922	$ 18,725	$ 2,282,647	$ 2,096,577	$ 18,368	$ 2,114,945

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

	Year Ended May 31, 2006 (in thousands, except per share amounts)			Year Ended May 31, 2005 (in thousands, except per share amounts)			Year Ended May 31, 2004 (in thousands, except per share amounts)		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Net sales	$ 2,025,739	$	$ 2,025,739	$ 1,879,950	$	$ 1,879,950	$ 1,615,253	$	$ 1,615,253
Cost of sales	582,070	36	582,106	533,096	259	533,355	461,502	664	462,166
Gross profit	1,443,669	(36)	1,443,633	1,346,854	(259)	1,346,595	1,153,751	(664)	1,153,087
Selling, general and administrative expenses	750,428	(169)	750,259	694,254	2,048	696,302	595,234	4,974	600,208
Research and development expense	84,914	74	84,988	79,696	517	80,213	63,636	1,328	64,964
In-process research and development				26,020		26,020	1,250		1,250
Operating income	608,327	59	608,386	546,884	(2,824)	544,060	493,631	(6,966)	486,665
Other income, net	14,248	26	14,274	11,677	(111)	11,566	18,702	(403)	18,299
Interest expense	(11,374)	(291)	(11,665)	(8,861)	(296)	(9,157)	(3,537)	(710)	(4,247)
Income before income taxes and minority interest	611,201	(206)	610,995	549,700	(3,231)	546,469	508,796	(8,079)	500,717
Provision for income taxes	205,057	30	205,087	198,084	(988)	197,096	176,098	(2,776)	173,322
Income before minority interest	406,144	(236)	405,908	351,616	(2,243)	349,373	332,698	(5,303)	327,395
Minority interest							7,071		7,071
Net income	$ 406,144	$ (236)	$ 405,908	$ 351,616	$ (2,243)	$ 349,373	$ 325,627	$ (5,303)	$ 320,324
Earnings per share:									
Basic	$ 1.64	$	$ 1.64	$ 1.39	$ (0.01)	$ 1.38	$ 1.27	$ (0.02)	$ 1.25
Diluted	1.63		1.63	1.38	(0.01)	1.37	1.27	(0.02)	1.25
Shares used in the computation of earnings per share:									
Basic	247,576		247,576	252,387		252,387	255,512		255,512
Diluted	248,430		248,430	254,148		254,148	257,204		257,204

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

	Year Ended May 31, 2006 (in thousands)			Year Ended May 31, 2005 (in thousands)			Year Ended May 31, 2004 (in thousands)		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Cash flows from (used in) operating activities:									
Net income	$ 406,144	$ (236)	$ 405,908	$ 351,616	$ (2,243)	$ 349,373	$ 325,627	$ (5,303)	$ 320,324
Adjustments to reconcile net income to net cash from operating activities:									
Depreciation	71,976		71,976	61,781		61,781	52,461		52,461
Amortization	10,201		10,201	7,821		7,821	5,757		5,757
Write-off of in-process research and development				26,020		26,020	1,250		1,250
Minority interest							7,071		7,071
Share-based expense		1,985	1,985		2,741	2,741		3,462	3,462
Other	1,130		1,130	(19)		(19)	(214)		(214)
Deferred income taxes	(5,102)	746	(4,356)	3,250	597	3,847	(13,686)	832	(12,854)
Tax benefit from exercise of stock options	5,224	(2,984)	2,240	6,779	951	7,730	5,953	1,692	7,645
Changes in current assets and liabilities, excluding effects of acquisitions and dispositions:									
Accounts and notes receivable	(31,284)		(31,284)	16,265		16,265	(29,955)		(29,955)
Inventories	(69,728)		(69,728)	(42,188)		(42,188)	2,888		2,888
Accounts payable	4,030		4,030	(5,927)		(5,927)	10,949		10,949
Other	20,879	489	21,368	(14,478)	(2,046)	(16,524)	17,988	(683)	17,305
Net cash from operating activities	413,470		413,470	410,920		410,920	386,089		386,089
Cash flows from (used in) investing activities:									
Proceeds from sales and maturities of investments	77,400		77,400	62,344		62,344	236,360		236,360
Purchases of investments	(68,621)		(68,621)	(57,890)		(57,890)	(119,819)		(119,819)
Capital expenditures	(108,912)		(108,912)	(97,372)		(97,372)	(61,342)		(61,342)
Acquisitions, net of cash acquired				(266,229)		(266,229)	(307,475)		(307,475)
Other	1,068		1,068	(1,535)		(1,535)	(1,205)		(1,205)
Net cash used in investing activities	(99,065)		(99,065)	(360,682)		(360,682)	(253,481)		(253,481)
Cash flows from (used in) financing activities:									
Increase (decrease) in short-term borrowings	(2,693)		(2,693)	167,624		167,624	(11,487)		(11,487)
Issuance of shares	23,002		23,002	24,640		24,640	28,208		28,208
Cash dividends	(62,473)		(62,473)	(50,871)		(50,871)	(38,604)		(38,604)
Purchase of common shares	(215,430)		(215,430)	(239,663)		(239,663)	(172,724)		(172,724)
Net cash used in financing activities	(257,594)		(257,594)	(98,270)		(98,270)	(194,607)		(194,607)
Effect of exchange rate changes on cash	(554)		(554)	(6,505)		(6,505)	(4,408)		(4,408)
	56,257		56,257	(54,537)		(54,537)	(66,407)		(66,407)

Increase (decrease) in cash and cash equivalents												
Cash and cash equivalents, beginning of year	104,706			104,706	159,243			159,243	225,650			225,650
Cash and cash equivalents, end of year	$ 160,963	$		$ 160,963	$ 104,706	$		$ 104,706	$ 159,243	$		$ 159,243
Supplemental disclosures of cash flow information:												
Cash paid during the year for:												
Interest	$ 11,342	$		$ 11,342	$ 8,666	$		$ 8,666	$ 3,657	$		$ 3,657
Income taxes	216,431			216,431	196,295			196,295	176,374			176,374

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

Note B: Nature of Operations.

Biomet, Inc. and its subsidiaries design, manufacture and market products used primarily by musculoskeletal medical specialists in both surgical and nonsurgical therapy, including reconstructive products, fixation devices, spinal products and other products. Headquartered in Warsaw, Indiana, the Company and its subsidiaries currently distribute products in more than 100 countries. The Company operates in one business segment, but has three reportable geographic segments.

The Company has restated its results for its fiscal years 1996 through 2003 as an adjustment to its beginning Retained Earnings as of June 1, 2004 and has restated its consolidated financial statements as of May 31, 2006 and 2005 and for the years ended May 31, 2006, 2005 and 2004 to correct errors related to share-based compensation expense not previously recorded for certain stock option awards, see Note A Restatement of Consolidated Financial Statements.

Note C: Accounting Policies.

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

Basis of Presentation The consolidated financial statements include the accounts of Biomet, Inc. and its subsidiaries (individually and collectively, the Company). All foreign subsidiaries are consolidated on the basis of an April 30 fiscal year. All significant intercompany accounts and transactions are eliminated. Investments in affiliates in which the Company does not have the ability to significantly influence the operations are accounted for on the cost method, the carrying amount of which approximates market. Investments in affiliates in which the Company does have the ability to significantly influence the operations, but does not control, are accounted for using the equity method.

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

Translation of Foreign Currency Assets and liabilities of foreign subsidiaries are translated at rates of exchange in effect at the close of their fiscal year. Revenues and expenses are translated at the weighted average exchange rates during the year. Translation gains and losses are accumulated within other comprehensive income (loss) as a separate component of shareholders equity. Foreign currency transaction gains and losses resulting from product transfer between subsidiaries is recorded in cost of goods sold. Other foreign currency exchange gains and losses, which are not material, are included in other income, net.

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

Investments Highly liquid investments with original maturities of three months or less are classified as cash and cash equivalents. Certificates of deposit with maturities greater than three months and less than one year are classified as short-term investments. Certificates of deposit with maturities greater than one year are classified as long-term investments. The Company accounts for its investments in debt and equity securities under Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities, which requires certain securities to be categorized as either trading, available-for-sale or held-to-maturity. Available-for-sale securities are carried at fair value with unrealized gains and losses recorded within other comprehensive income (loss) as a separate component of shareholders equity. Held-to-maturity securities are carried at amortized cost. The Company has no trading securities. The cost of

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

investment securities sold is determined by the specific identification method. Dividend and interest income are accrued as earned. The Company reviews its investments quarterly for declines in market value that are other than temporary. Investments that have declined in market value that are determined to be other than temporary, are charged to other income by writing that investment down to market value.

Concentrations of Credit Risk and Allowance for Doubtful Receivables The Company provides credit, in the normal course of business, to hospitals, private and governmental institutions and healthcare agencies, insurance providers and physicians. The Company maintains an allowance for doubtful receivables and charges actual losses to the allowance when incurred. The Company invests the majority of its excess cash in certificates of deposit with financial institutions, money market securities, municipal, corporate and mortgage-backed securities and common stocks. The Company does not believe it is exposed to any significant credit risk on its cash and cash equivalents or investments.

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

Property, Plant and Equipment Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of 5 to 30 years for buildings and improvements and 3 to 10 years for machinery and equipment. Gains or losses on the disposition of property, plant and equipment are included in income. Maintenance and repairs are expensed as incurred. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows relating to the asset are less than its carrying amount.

Goodwill The Company accounts for goodwill in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142, among other things, requires that goodwill not be amortized but should be tested for impairment at least annually. In addition, the Company reviews goodwill for possible impairment by comparing the fair value of each reporting unit to its carrying amount annually. Based on the Company s reviews, no impairment charges have been recorded.

Other Intangible Assets Intangible assets consist primarily of developed technology and patents, trademarks and trade names, customer relationships and covenants not to compete and are carried at cost less accumulated amortization. Intangible assets with an indefinite life, including certain trademarks and trade names, are not amortized. The useful life of indefinite life intangible assets is assessed annually to determine whether events and circumstances continue to support an indefinite life. Amortization of intangibles with a finite life is computed based on the straight-line method over periods ranging from 3 to 15 years. In addition, the Company reviews other intangible assets (indefinite life) for possible impairment annually or whenever events or circumstances indicate that the carrying amount may not be recoverable.

Income Taxes Deferred income taxes are determined using the liability method. No provision has been made for U.S. and state income taxes or foreign withholding taxes on the undistributed earnings (approximately $306 million at May 31, 2006) of foreign subsidiaries because it is expected that such earnings will be reinvested overseas indefinitely. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. income taxes (subject to an adjustment for foreign tax credits), state income taxes and withholding taxes payable to the various foreign countries. Determination of the amount of any unrecognized deferred income tax liability on these undistributed earnings is not practical.

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

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

Revenue Recognition For the majority of the Company s products in a country where the Company has a direct distribution operation, revenue is recognized upon notification to the Company that the product has been implanted in or applied to the patient. For other products or services, and in countries where the Company does not have a direct distribution operation, the Company recognizes revenue when title passes to the customer and there are no remaining obligations that will affect the customer s final acceptance of the sale. For its insurance billings in the United States, the Company records anticipated price adjustments, which can occur subsequent to invoicing, based on estimates derived from past experience, as a reduction of net sales in the same period that revenue is recognized. The Company also records estimated sales returns and other adjustments as a reduction of net sales in the same period that revenue is recognized. Shipping and handling fees billed to customers are recorded as revenue, while related costs are included in cost of goods sold.

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

The components of accumulated other comprehensive income (loss) at May 31, 2006 and 2005 are as follows:

	2006	2005
	(in thousands)	
Net unrealized holding loss on investments	$ (2,049)	$ (2,469)
Cumulative translation adjustment	19,779	25,720
	$ 17,730	$ 23,251

Share-Based Compensation - The Company sponsors a stock option plan for its employees. Through May 31, 2006, the Company followed the disclosure only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, (SFAS No. 123) and accordingly, accounted for equity awards under this plan pursuant to the recognition and measurement principles of APB No. 25 and related interpretations, as permitted by SFAS No. 123. Under APB No. 25, compensation expense was recognized related to employee equity awards where, at the measurement date, there was intrinsic value. Stock-based compensation expense is recognized ratably over the vesting period. The Company records stock-based compensation expense in the line items of statements of income based on the category of the grant recipient.

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

If share-based compensation expense for these stock options had been determined based on the fair value method of accounting in fiscal years 2006, 2005 and 2004, pro forma net income and earnings per share would have been as follows:

	2006 (restated)	2005 (restated)	2004 (restated)
Net income as reported (in thousands)	$ 405,908	$ 349,373	$ 320,324
Total share-based compensation expense included in the determination of net income (in thousands)	2,166	2,690	3,178
Deduct: Total share-based compensation expense determined under fair value based method for all awards net of related tax effects (in thousands)	(11,590)	(11,159)	(10,827)
Pro forma net income (in thousands)	$ 396,484	$ 340,904	$ 312,675
Earnings per share:			
Basic, as restated	$ 1.64	$ 1.38	$ 1.25
Basic, pro forma	1.60	1.35	1.22
Diluted, as restated	1.64	1.38	1.25
Diluted, pro forma	1.60	1.35	1.22

Under SFAS No. 123, the fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted assumptions used for grants in 2006, 2005 and 2004: (1) expected life of option of 5.27, 5.22 and 5.25 years; (2) dividend yield of 0.72%, 0.43% and 0.51%; (3) expected volatility of 32%, 33% and 34%; and (4) risk-free interest rate of 5.21%, 3.90% and 3.91%, respectively.

In addition, the Company provides stock option awards to its independent distributors. These awards are made to distributors in accordance with predefined conditions which, in accordance with EITF 96-18, require the Company to measure the fair value at the date of grant and then remeasure fair value at each subsequent reporting period and record the changes in value over the vesting period. The final measurement of the total cost of the award is made when performance is complete.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Share-Based Payment. This statement is a revision to SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees. SFAS No. 123(R) requires the recognition of the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award. No compensation cost is recognized for equity instruments for which employees are not expected to render the required service period and thus are forfeited. In April 2005, SEC release No. 33-8568 delayed the implementation of SFAS No. 123(R). The Company will adopt SFAS 123(R) on June 1, 2006 using the modified-prospective method and will not restate prior periods. SFAS 123(R) will apply to new options, as well as outstanding options as of June 1, 2006. Compensation expense for outstanding options which are not vested as of June 1, 2006 will be recognized over the remaining vesting period using compensation cost as previously calculated for pro forma disclosure and reporting purposes. The Company estimates the adoption of FASB 123(R) will reduce diluted earnings per share by $0.05-$0.06 during fiscal year 2007.

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

In November 2004, the FASB issued SFAS No. 151, Inventory Costs to clarify the accounting for abnormal amounts of idle facility expense. SFAS No. 151 requires that fixed overhead production costs be applied to inventory at normal capacity and any excess fixed overhead production costs be charged to expense in the period in which they were incurred. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. The Company does not expect SFAS No. 151 to have a material impact on its financial position, results of operations, or cash flows when adopted in fiscal 2007.

In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes , an interpretation of FASB Statement No. 109, Accounting for Income Taxes . This statement creates a single model to address uncertainty in tax positions which utilizes a two-step approach for evaluating such tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied. In addition, expanded disclosures are required. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of adopting FIN 48. At this time, the Company does not expect the adoption of FIN 48 to have a material impact on its financial statements.

Note D: Business Combinations.

On June 18, 2004, the Company acquired Interpore International Inc. (Interpore) for $266 million in cash. Based in Irvine, California, Interpore is focused on providing innovative products for spinal surgery. The primary reason for making the Interpore acquisition was to broaden the product portfolio the Company offers in the spinal market. Interpore s three major product groups include spinal implants, orthobiologic products and minimally-invasive surgery products used by orthopedic surgeons and neurosurgeons in a wide range of applications. The purchase price of this acquisition exceeded the fair value of identifiable tangible and intangible assets. This reflects the strategic compatibility of the products and technologies of Interpore and EBI, which is expected to provide increased earnings power and an improved platform from which the combined entity can actively pursue growth opportunities in these product categories, both domestically and internationally. The Company accounted for this acquisition under the purchase method of accounting pursuant to SFAS No. 141, Business Combinations. Accordingly, Interpore s results of operations have been included in the Company s consolidated statements of income since the closing date, and its respective assets and liabilities were recorded at their estimated fair values in the Company s consolidated balance sheets as of the closing date, with the excess purchase price being allocated to goodwill. Interpore s net sales in 2003 were approximately $67.5 million.

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

The following table summarizes the assets acquired and liabilities assumed in the acquisition:

	As of June 18, 2004 (in thousands)
Current assets	$ 40,100
Property, plant and equipment	9,307
Intangible assets not subject to amortization:	
Trademarks and trade names	1,260
Intangible assets subject to amortization:	
Developed technology	16,180
License agreements	3,450
Trademarks and trade names	2,270
Customer relationships	11,440
In-process research and development	26,020
Deferred taxes	15,945
Other assets	82
Goodwill	169,596
Total assets acquired	$ 295,650
Deferred taxes	14,512
Other	14,909
Total liabilities assumed	29,421
Net assets acquired	$ 266,229

The $26,020,000 assigned to in-process research and development was written off as of the acquisition date. With respect to the valuation of the Interpore in-process research and development expense, there were four projects valued. Net cash flows were forecasted to commence between 2005 and 2006, discount rates of 20% to 30% were used, and assumed additional research and development expenditures prior to the date of initial product introduction totaled approximately $2 million and approximately $1 million in 2005 and 2006, respectively. The major project, a total lumbar disc replacement, represented $18 million of the valuation. The total estimated additional expenditures have not changed to date, but the time table for getting the total lumbar disc replacement to market has been extended to 2012 or 2013 due to regulatory requirements. The weighted average amortization period for amortizable intangibles is 8 years. No amount of goodwill is expected to be deductible for tax purposes.

On March 19, 2004, the Company acquired Merck KGaA s 50% interest in the Biomet Merck joint venture for $300 million in cash. The Company accounted for this acquisition under the purchase method of accounting pursuant to SFAS No. 141, Business Combinations. The acquisition is the culmination of the joint venture to develop, manufacture and distribute orthopedic products in Europe under which Biomet and Merck KGaA have been operating since 1998. Since the Company has had operating control of the joint venture since its formation, the operations of the joint venture have been consolidated since its formation and minority interest deducted on the income statement and shown on the balance sheet to account for Merck KGaA s 50% limited partnership interest. From the date of acquisition, the minority interest has been eliminated and 50% of the respective assets and liabilities have been stepped up to their estimated fair values in the Company s consolidated financial statements, with the excess purchase price being allocated to goodwill.

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

The following table summarizes the step-up of the assets acquired and liabilities assumed in the acquisition:

	As of March 19, 2004 (in thousands)
Inventories	$ 19,600
Intangible assets not subject to amortization:	
Trademarks and trade names	27,500
Intangible assets subject to amortization:	
Covenant not to compete	3,100
Developed technology	12,500
Trademarks and trade names	1,100
Customer relationships	1,650
In-process research and development	1,250
Other assets	3,362
Goodwill	125,497
Total asset step-up	$ 195,559
Deferred taxes	17,622
Pension liabilities	7,109
Other	(10,214)
Elimination of minority interest	(118,958)
Total liability step-up or elimination	(104,441)
Net assets acquired	$ 300,000

The $1,250,000 assigned to in-process research and development was written off as of the acquisition date. The weighted average amortization period for amortizable intangibles is 9 years. No amount of goodwill is expected to be deductible for tax purposes.

The Company completed its purchase price allocations for Interpore and Biomet Merck in accordance with U.S. generally accepted accounting principles. The process included interviews with management, review of the economics and competitive environment in which the companies operate and examination of assets, including historical performance and future prospects. The purchase price allocations were based on information then available to the Company, and expectations and assumptions deemed reasonable to the Company s management. No assurances can be given, however, that the underlying assumptions used to estimate expected technology based product revenues, development costs or profitability, or the events associated with such technology, will occur as projected.

Other Acquisitions During fiscal 2006 and 2004, the Company completed several acquisitions of foreign distributors and/or businesses. The acquisitions were accounted for using the purchase method of accounting with the operating results of the acquired businesses included in the Company s consolidated financial statements from the date of acquisition. Goodwill recognized in connection with these acquisitions aggregated $6.4 million in fiscal 2006 and $9.7 million in fiscal 2004.

Pro forma financial information reflecting all acquisitions accounted for as purchases has not been presented as it is not materially different from the Company s historical results.

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

Note E: Investments.

At May 31, 2006, the Company s investment securities were classified as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(in thousands)		
Available-for-sale:				
Debt securities	$ 8,534	$	$ (551)	$ 7,983
Equity securities	19,307	618	(541)	19,384
Mortgage-backed securities	36,285		(2,679)	33,606
Total available-for-sale	64,126	618	(3,771)	60,973
Held-to-maturity:				
Debt securities	2,961		(66)	2,895
Mortgage-backed obligations	74			74
Total held-to-maturity	3,035		(66)	2,969
Certificates of deposit	500			500
Total	$ 67,661	$ 618	$ (3,837)	$ 64,442

At May 31, 2005, the Company s investment securities were classified as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(in thousands)		
Available-for-sale:				
Debt securities	$ 10,047	$	$ (356)	$ 9,691
Equity securities	22,288	1,099	(1,975)	21,412
Mortgage-backed securities	36,670	2	(2,569)	34,103
Total available-for-sale	69,005	1,101	(4,900)	65,206
Held-to-maturity:				
Debt securities	4,955		(22)	4,933
Mortgage-backed obligations	107			107
Total held-to-maturity	5,062		(22)	5,040

Certificates of deposit	2,100			2,100
Total	$ 76,167	$ 1,101	$ (4,922)	$ 72,346

Proceeds from sales of available-for-sale securities were $71,118,000, $58,050,000 and $178,165,000 for the years ended May 31, 2006, 2005 and 2004, respectively. There were no sales of held-to-maturity securities for the years ended May 31, 2006, 2005 and 2004. The cost of marketable securities sold is determined by the specific identification method. For the year ended May 31, 2006, gross realized gains and (losses) on sales of available-for-sale securities were $2,380,000 and $(2,107,000), respectively. For the year ended May 31, 2005, gross realized gains and (losses) on sales of available-for-sale securities were $918,000 and $(899,000), respectively. For the year ended May 31, 2004, gross realized gains and (losses) on sales of available-for-sale securities were $1,669,000 and $(1,455,000), respectively. The Company s investment securities at May 31, 2006 include $5,880,000 of debt securities, and $500,000 of certificates of deposits all maturing within one year, and $5,064,000 of debt securities and $33,680,000 of mortgage-backed securities all maturing past one year.

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

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

	2006	2005	2004
		(in thousands)	
Interest income	$ 6,851	$ 4,191	$ 8,271
Dividend income	1,905	1,890	2,150
Net realized gains	5,617	1,785	3,576
Total	$ 14,373	$ 7,866	$ 13,997

Note F: Inventories.

Inventories at May 31, 2006 and 2005 consist of the following:

	2006	2005
	(in thousands)	
Raw materials	$ 71,126	$ 50,676
Work-in-progress	48,416	56,610
Finished goods	225,997	200,041
Consigned distributor	188,976	162,464
Total	$ 534,515	$ 469,791

Reserves for excess and slow-moving inventory at May 31, 2006 and 2005 were $99,427,000 and $93,046,000, respectively.

Note G: Goodwill and Other Intangible Assets.

The following table summarizes the changes in the carrying amount of goodwill for the year ended May 31, 2006:

	United States	Europe	Rest of World	Total
		(in thousands)		
Balance at May 31, 2004	$ 76,403	$ 181,578	$ 4,087	$ 262,068
Goodwill acquired	169,596			169,596
Currency translation		3,443	514	3,957
Balance at May 31, 2005	245,999	185,021	4,601	435,621
Goodwill acquired		6,409		6,409
Currency translation		(752)	119	(633)
Balance at May 31, 2006	$ 245,999	$ 190,678	$ 4,720	$ 441,397

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

The components of identifiable intangible assets are as follows as of May 31:

	2006		2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in thousands)			
Intangible assets subject to amortization:				
Developed technology and patents	$ 50,658	$ 15,102	$ 49,215	$ 10,943
Trademarks and trade names	3,599	765	3,599	453
Customer relationships	16,734	5,858	16,670	2,808
Covenants not to compete	3,974	1,639	4,055	923
Other	923	526	923	260
	75,888	23,890	74,462	15,387
Intangible assets not subject to amortization:				
Trademarks and trade names	27,500		28,760	
Total identifiable intangible assets	$ 103,388	$ 23,890	$ 103,222	$ 15,387

Total amortization expense for finite-lived intangible assets was $10,201,000, $7,821,000 and $5,757,000 in 2006, 2005 and 2004, respectively, and was recorded as part of selling, general and administrative expense. The weighted average amortization lives for the covenants not to compete, developed technology and patents, trademarks and trade names, and customer relationships are 5 years, 10 years, 10 years and 15 years, respectively. The weighted average amortization life of these intangible assets on a combined basis is 9 years. Estimated annual amortization expense for the years ended May 31, 2007 through 2011 is $8.7 million.

Note H: Debt.

At May 31, 2006 and 2005, short-term borrowings consist of the following:

		2006	2005
		(in thousands)	
Bank line of credit		$ 180,000	$ 180,000
Bank line of credit	Biomet Europe	57,037	61,565
Bank line of credit	Biomet Japan	39,524	40,628
Total		$ 276,561	$ 282,193

In connection with the Interpore acquisition, the Company entered into a 36-month revolving credit facility in the amount of $200 million due in June 2007. Interest is payable monthly at the applicable LIBOR Rate plus .375%. The Company also pays a quarterly facility fee of .125%. The interest rate at May 31, 2006 was 5.47%. Biomet Europe has a EUR 100 million ($126 million at May 31, 2006) unsecured line of credit with a major European bank. This line of credit is used to finance its operations and interest on outstanding borrowings is payable monthly at the lender s interbank rate plus 0.6% (effective rate of 3.1% and 2.65% at May 31, 2006 and 2005, respectively). Biomet Japan has a YEN 4.5 billion ($39.5 million at May 31, 2006) unsecured line of credit with major Japanese banks. This line of credit is used to finance its operations and interest on outstanding borrowings is payable monthly at the lender s interbank rate plus 0.6% (effective rate of 1.03% and 1.01% at May 31,

2006 and 2005, respectively).

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

Note I: Team Member Benefit Plans.

The Company has an Employee Stock Bonus Plan for eligible Team Members of the Company and certain subsidiaries. The Company has historically contributed up to 3% of an eligible Team Member s compensation. The amounts expensed under this plan for the years ended May 31, 2006, 2005 and 2004 were $6,603,000, $5,849,000 and $5,759,000, respectively. The Company makes cash contributions to the plan and issues no Common Shares in connection with the plan.

The Company also has a defined contribution profit sharing plan which covers substantially all of the Team Members within the continental U.S. and allows participants to make contributions by salary reduction pursuant to Section 401 (k) of the Internal Revenue Code. The Company currently matches up to 75% of the Team Member s contribution up to a maximum of 5% of the Team Member s compensation. The amounts expensed under this profit sharing plan for the years ended May 31, 2006, 2005 and 2004 were $6,319,000, $5,472,000 and $4,586,000, respectively.

Note J: Stock Option Plans.

The Company has various stock option plans: the 1992 Employee and Non-Employee Director Stock Option Plan; the 1992 Distributor Stock Option Plan and the Biomet, Inc. 1998 Qualified and Non-Qualified Stock Option Plan. At May 31, 2006, the only plan with shares available for grant is the Biomet, Inc. 1998 Qualified and Non-Qualified Stock Option Plan.

Under the stock option plans, options may be granted to key employees, non-employee directors and distributors, at the discretion of the Compensation and Stock Option Committee, and generally become exercisable in annual or biannual increments beginning one or two years after the date of grant in the case of employee options and in annual increments beginning at the date of grant for distributor options. See Note A Restatement of Consolidated Financial Statements for a description of the Company s investigation of historical stock option granting practices. The term of each option granted expires within the period prescribed by the Compensation and Stock Option Committee, but shall not be more than five years from the date the option is granted if the optionee is a 10% or more shareholder, and not more than ten years for all other optionees. All rights under the options automatically terminate upon the optionee s separation from service with the Company, unless such separation results from retirement, disability or death.

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Notes To Consolidated Financial Statements (continued)

The following table summarizes stock option activity:

	Number of Shares	Weighted Average Exercise Price
Outstanding, May 31, 2003	7,792,141	$20.93
Granted	1,892,270	34.45
Exercised	(1,982,116)	15.45
Terminated	(344,926)	20.75
Outstanding, May 31, 2004	7,357,369	25.89
Granted	2,407,505	42.44
Exercised	(1,326,339)	19.21
Terminated	(374,700)	24.99
Outstanding, May 31, 2005	8,063,835	31.86
Granted	2,878,601	35.01
Exercised	(1,172,179)	22.76
Terminated	(607,301)	34.59
Outstanding, May 31, 2006	9,162,956	$33.84

Options outstanding at May 31, 2006, are exercisable at prices ranging from $11.14 to $48.27 and have a weighted average remaining contractual life of 7.2 years. At May 31, 2006 there were 4,618,962 shares available for future option grants. The following table summarizes information about stock options outstanding at May 31, 2006.

Range of Exercise Price	Number Outstanding at May 31, 2006	Outstanding Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at May 31, 2006	Weighted Average Exercise Price
$11.14 20.00	169,542	0.8 years	$13.62	160,398	$13.44
20.01 30.00	2,570,541	5.3 years	26.09	752,735	26.03
30.01 40.00	4,398,451	8.3 years	34.99	349,862	35.20
40.01 48.27	2,024,422	7.5 years	42.89	310,376	42.55
	9,162,956			1,573,371	

	Year Ended May 31,					
	2006		2005		2004	
	Number of Shares	Weighted Average Price per Share	Number of Shares	Weighted Average Price per Share	Number of Shares (as restated)	Weighted Average Price per Share

	(as restated)		(as restated)			
Options granted with an exercise price equal to fair value at date of grant	1,100,845	$36.46	637,955	$40.31	548,370	$37.25
Options granted with an exercise price greater than fair value at date of grant	292,200	$34.85	582,275	$43.49	153,900	$31.34
Options granted with an exercise price less than fair value at date of grant	1,485,556	$34.02	1,187,275	$42.66	1,190,000	$33.17

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

At May 31, 2005 and 2004, there were exercisable options outstanding to purchase 1,540,773 and 1,781,383 shares, respectively, at weighted average exercise prices of $23.20 and $20.27, respectively. The weighted average fair value of options granted during the fiscal years ended May 31, 2006, 2005, and 2004 was $12.57, $11.87, and $11.03, respectively.

Note K: Shareholders Equity & Earnings Per Share.

The Company announced a cash dividend of thirty cents ($0.30) per share, payable July 21, 2006 to shareholders of record at the close of business on July 14, 2006.

Shares used in computation of diluted earnings per share reflect the dilutive effect of stock options.

In December 1999, the Board of Directors of the Company adopted a new Shareholder Rights Plan (the Plan) to replace a 1989 rights plan that expired on December 2, 1999. On December 17, 2006, and immediately prior to the Company s entry into the merger agreement with the private equity consortium, the Company s Board of Directors terminated the Plan and redeemed all rights issued and outstanding under the Plan. As provided in the Plan, the rights terminated on December 17, 2006, and, thereafter, holders of the rights were entitled only to receive a redemption payment of $0.0001 per right (the Redemption Payment). The Redemption Payment was paid by the Company to rights holders of record on December 28, 2006 in accordance with the terms of the Plan on January 3, 2007.

Note L: Income Taxes.

The components of income before income taxes are as follows:

	2006 (as restated)	2005 (as restated)	2004 (as restated)
		(in thousands)	
United States operations	$ 531,317	$ 488,346	$ 462,985
Foreign operations	79,678	58,123	37,732
Total	$ 610,995	$ 546,469	$ 500,717

The provision for income taxes is summarized as follows:

	2006 (as restated)	2005 (as restated)	2004 (as restated)
		(in thousands)	
Current:			
Federal	$ 170,623	$ 160,386	$ 153,317
State, including Puerto Rico	19,012	19,927	20,865
Foreign	19,808	12,936	11,994
	209,443	193,249	186,176
Deferred	(4,356)	3,847	(12,854)
Total	$ 205,087	$ 197,096	$ 173,322

Effective tax rate	33.6%	36.1%	34.6%

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

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

	2006 (as restated)	2005 (as restated)	2004 (as restated)
U.S. statutory income tax rate	35.0%	35.0%	35.0%
Add (deduct):			
State taxes, less effect of federal reduction	1.7	2.0	2.1
Foreign income taxes at rates different from the U.S. statutory rate	(.9)	(1.3)	(.4)
Tax benefit relating to operations in Puerto Rico	(.6)	(.2)	(.2)
Tax credits	(.3)	(.4)	(.7)
Tax benefit relating to U.S. export sales	(1.2)	(.6)	(.5)
In-process research and development		1.7	
Other	(.1)	(.1)	(.7)
Effective tax rate	33.6%	36.1%	34.6%

The components of the net deferred tax asset and liability at May 31, 2006 and 2005 are as follows:

	2006 (as restated)	2005 (as restated)
	(in thousands)	
Current deferred tax asset:		
Accounts and notes receivable	$ 19,541	$ 19,730
Inventories	43,480	40,875
Accrued expenses	12,169	14,506
Current deferred tax asset	$ 75,190	$ 75,111
Long-term deferred tax asset (liability):		
Depreciation	$ (11,296)	$ (12,202)
Financial accounting basis of net assets of acquired companies different than tax basis	(12,100)	(12,681)
Other	(3,595)	(6,372)
Long-term deferred tax liability	$ (26,991)	$ (31,255)

Note M: Segment Data.

The Company operates in one business segment, musculoskeletal products, which includes the designing, manufacturing and marketing of reconstructive products, fixation devices, spinal products and other products. Other products consist primarily of EBI s softgoods and bracing products, Arthrotek s arthroscopy products, general instruments and operating room supplies. The Company manages its business segment primarily on a geographic basis. These geographic markets are comprised of the United States, Europe and the Rest of World. Major markets included in the Rest of World geographic market are Australia, Japan and Canada. The Company evaluates performance of each geographic segment based on net sales growth exclusive of foreign currency impact and operating income exclusive of acquisition expenses and inventory

step-up and in-process research and development write-offs. Identifiable assets are those assets used exclusively in the operations of each geographic segment. Revenues attributable to each geographic segment are based on the location of the customer.

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

Net sales growth by geographic segment and product category are as follows:

	2006			2005		
	Sales Growth As Reported	FX Impact	Sales Growth in Local Currencies	Sales Growth As Reported	FX Impact	Sales Growth in Local Currencies
			(in thousands)			
Net sales to customers:						
United States	7%	%	7%	15%	%	15%
Europe	7	4	11	17	7	10
Rest of World	17	1	16	31	4	27
Total	8%	1%	9%	16%	2%	14%
Product category sales growth:						
Reconstructive products	10%	1%	11%	19%	3%	16%
Fixation devices	2	0	2	(1)	1	(2)
Spinal products	4	0	4	34	1	33
Other products	5%	1%	6%	7%	1%	6%

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

Net sales of musculoskeletal products by product category and reportable geographic segment results are as follows:

	2006			2005			2004		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
					(in thousands)				
Reconstructive products	$ 1,379,420	$	$ 1,379,420	$ 1,254,234	$	$ 1,254,234	$ 1,052,865	$	$ 1,052,865
Fixation devices	251,360		251,360	246,730		246,730	248,821		248,821
Spinal products	221,964		221,964	214,039		214,039	159,927		159,927
Other products	172,995		172,995	164,947		164,947	153,640		153,640
	$ 2,025,739	$	$ 2,025,739	$ 1,879,950	$	$ 1,879,950	$ 1,615,253	$	$ 1,615,253
Net sales to customers:									
United States	$ 1,325,113	$	$ 1,325,113	$ 1,238,727	$	$ 1,238,727	$ 1,079,532	$	$ 1,079,532
Europe	520,660		520,660	487,991		487,991	418,328		418,328
Rest of World	179,966		179,966	153,232		153,232	117,393		117,393
	$ 2,025,739	$	$ 2,025,739	$ 1,879,950	$	$ 1,879,950	$ 1,615,253	$	$ 1,615,253
Operating income:									
United States	$ 519,536	$ 417	$ 519,953	$ 507,690	$ (1,891)	$ 505,799	$ 443,862	$ (5,187)	$ 438,675
Europe	77,927	(261)	77,666	76,566	(797)	75,769	49,228	(1,633)	47,595
Rest of World	10,864	(97)	10,767	12,898	(136)	12,762	4,241	(146)	4,095
Current period impact of inventory step-up				(24,250)		(24,250)	(2,450)		(2,450)
Write-off of in-process research and development				(26,020)		(26,020)	(1,250)		(1,250)
	$ 608,327	$ 59	$ 608,386	$ 546,884	$ (2,824)	$ 544,060	$ 493,631	$ (6,966)	$ 486,665
Long-lived assets:									
United States	$ 488,097	$	$ 488,097	$ 475,087	$	$ 475,087	$ 241,035	$	$ 241,035
Europe	364,110		364,110	353,979		353,979	334,177		334,177
Rest of World	32,879		32,879	23,732		23,732	19,814		19,814
	$ 885,086	$	$ 885,086	$ 852,798	$	$ 852,798	$ 595,026	$	$ 595,026
Capital expenditures:									
United States	$ 48,175	$	$ 48,175	$ 50,930	$	$ 50,930	$ 26,833	$	$ 26,833
Europe	47,023		47,023	38,008		38,008	26,068		26,068
Rest of World	13,714		13,714	8,434		8,434	8,441		8,441
	$ 108,912	$	$ 108,912	$ 97,372	$	$ 97,372	$ 61,342	$	$ 61,342

Depreciation and amortization:												
United States	$	39,275	$	$	39,275	$	29,273	$	$	29,273	$	22,309	$	$	22,309
Europe		37,477			37,477		34,695			34,695		30,746			30,746
Rest of World		5,425			5,425		5,634			5,634		5,163			5,163
	$	82,177	$	$	82,177	$	69,602	$	$	69,602	$	58,218	$	$	58,218

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

Note N: Commitments & Contingencies.

Medical Insurance Plan The Company maintains a self-insurance program for covered medical expenses for all Team Members within the continental U.S. The Company is liable for claims up to $150,000 per insured annually, as well as an additional annual aggregate of $60,000. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and a management-determined estimated liability for claims incurred but not reported.

Liability Insurance Since 1989, the Company has self-insured against product liability risks, with excess coverage on a claims-made basis from various insurance carriers in excess of the self-insured amounts and subject to certain policy limits. Self-insurance costs are accrued based on reserves set in consultation with the insurance carrier for reported claims and a management-determined estimated liability for claims incurred but not reported. Based on historical experience, management does not anticipate that incurred but unreported claims would have a material impact on the Company s consolidated financial position.

Litigation On March 30, 2005 the Company announced that it had received a subpoena from the U.S. Department of Justice through the U.S. Attorney for the District of New Jersey requesting documents related to any consulting and professional service agreements with orthopedic surgeons using or considering the use of Biomet s hip or knee implants for the period January 2002 through March 29, 2005. The Company is aware that similar inquiries were directed to other companies in the orthopedics industry. On July 19, 2006 Biomet received a letter from the U.S. Department of Justice through the U.S. Attorney for the District of New Jersey requesting additional documents further to the subpoena issued in March 2005. This letter requested additional documents related to consulting and service agreements for the time period January 1998 through the present, as well as research and other grant agreements for that same time period. Further, the letter requested that the Company provide copies of the agreements identified in the supplemental request on an on-going basis. In addition, the requested information related to Company-sponsored training events, the selection process used by the Company to identify consultants and researchers, the Company s product design process for hip and knee implants and information on the Company s orthopedic sales force. The Company has cooperated and intends to continue to fully cooperate with the Department of Justice inquiry. The results of this inquiry may not be known for several years.

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

On June 26, 2006 the Company announced that it had received a federal grand jury subpoena issued at the request of the U.S. Department of Justice, Antitrust Division, requesting documents regarding possible violations of federal criminal law, including possible violations of the antitrust laws, relating to the manufacture and sale of orthopedic implant devices (the Subpoena). The Subpoena requests documents from January 1, 2001 through the present date. The Company is aware of similar subpoenas directed to other companies in the orthopedics industry. The Company has cooperated and intends to continue to fully cooperate with the Department of Justice investigation. The result of this investigation may not be known for several years. However, the scope of the Subpoena has currently been narrowed to a specific geographic region and specific product lines. It is the Company s belief that the other orthopedic companies that received similar subpoenas have received similar

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

guidance. It is the Company s belief that the investigation was prompted by an unsolicited e-mail sent by a representative of one of the Company s competitors that proposed a common pricing strategy in connection with a particular hospital. This e-mail was received by an independent sales representative of an independent distributor for Biomet Orthopedics, but it was never transmitted to the Company. Neither the Company, its independent distributor, nor its independent sales representative took any action in response to the e-mail, and the Company believes that no anticompetitive activity took place as a result of it. The Company requires compliance by its employees and its independent distributors with its Code of Business Conduct and Ethics and with applicable antitrust laws. The information provided herein is limited to the information available to the Company at the present time and the Company cannot offer any assurances as to the scope and final outcome of this investigation.

On an issue related to the subpoena received from the Antitrust Division of the U.S. Department of Justice, the Company has received two complaints in Class Action lawsuits alleging violations of the Sherman Antitrust Act. In addition, the Company is aware of other complaints that have been filed, but not served on the Company. The complaints also named various other companies in the orthopedics industry as defendants. The Company intends to vigorously defend this matter and believes that it has meritorious defenses to the claims being asserted.

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

On September 21, 2006, two shareholder-derivative complaints were filed against certain of Biomet s current and former directors and officers in Kosciusko Superior Court I in Kosciusko County, in the State of Indiana. The complaints, captioned Long v. Hann, et al., and Thorson v. Hann, et al., alleged violations of state law relating to the issuance of certain stock option grants by the Company dating back to 1996. Both complaints sought unspecified money damages as well as other equitable and injunctive relief. These two cases were consolidated under the caption In re Biomet, Inc. Derivative Litigation, and on January 19, 2007, plaintiffs filed an amended complaint that made additional allegations based on the Company s December 18, 2006 disclosures related to stock option grants, including allegations that the defendants sought to sell the company in order to escape liability for their conduct, and that they did so at a devalued price, thus further breaching their fiduciary duties to shareholders. On February 16, 2007, defendants filed a motion to dismiss plaintiffs amended complaint, which is currently pending with the court.

On December 11, 2006, a third shareholder-derivative complaint captioned International Brotherhood of Electrical Workers Local 98 Pension Fund v. Hann, et al., No. 06 CV 14312, was filed in federal court in the Southern District of New York. The IBEW case makes allegations and claims similar to those made in the Indiana litigation, in addition to purporting to state three derivative claims for violations of the federal securities laws. On February 15, 2007, defendants filed a motion to dismiss the plaintiff s complaint. On April 11, 2007, plaintiffs filed a motion for partial summary judgment claiming that the disclosures in the Company s April 2, 2007 8-K filing and press release regarding the Company s historical stock options granting practices constitute admissions sufficient to establish defendants liability on certain of plaintiffs claims. Both motions are currently pending with the court.

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

Pursuant to Indiana law and provisions of our articles of incorporation, we are advancing reasonable expenses, including attorneys fees, incurred by the current and former Biomet directors and officers in defending these lawsuits.

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

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

Note O: Quarterly Financial Information Unaudited.

The following tables set forth a summary of the Company s consolidated statements of income for each of the quarterly periods in the years ended May 31, 2006 and 2005:

Income Statement Data	May 31, 2006			February 28, 2006			November 30, 2005			August 31, 2005		
(in thousands except per share amounts)	As Reported	Adjust-ments	As Restated	As Reported	Adjust-ments	As Restated	As Reported	Adjust-ments	As Restated	As Reported	Adjust-ments	As Restated
Net sales	$ 539,892		$ 539,892	$ 506,254	$	$ 506,254	$ 494,690	$	$ 494,690	$ 484,903	$	$ 484,903
Cost of sales	164,903	(260)	164,643	143,061	97	143,158	139,611	114	139,725	134,495	86	134,581
Gross profit	374,989	260	375,249	363,193	(97)	363,096	355,079	(114)	354,965	350,408	(86)	350,322
Selling, general and administrative expenses	205,656	(2,224)	203,432	185,137	668	185,805	181,453	806	182,259	178,182	581	178,763
Research and development expense	21,732	(520)	21,212	21,063	193	21,256	21,303	227	21,530	20,816	172	20,988
In-process research and development												
Operating income	147,601	3,004	150,605	156,993	(958)	156,035	152,323	(1,147)	151,176	151,410	(839)	150,571
Other income, net	299	26	325	2,262	(97)	2,165	(245)	(97)	(342)	558	(97)	461
Provision for income taxes	49,398	1,165	50,563	53,190	(370)	52,820	50,800	(442)	50,358	51,669	(322)	51,347
Net income	$ 98,502	$ 1,865	$ 100,367	$ 106,065	$ (685)	$ 105,380	$ 101,278	$ (802)	$ 100,476	$ 100,299	$ (614)	$ 99,685
Earnings per share:												
Basic	$ 0.40	$ 0.01	$ 0.41	$ 0.43	$ (0.01)	$ 0.42	$ 0.41	$	$ 0.41	$ 0.40	$	$ 0.40
Diluted	0.40	0.01	0.41	0.43	(0.01)	0.42	0.41	(0.01)	0.40	0.40		0.40
Shares used in the computation of earnings per share:												
Basic	245,518		245,518	246,859		246,859	248,337		248,337	249,582		249,582
Diluted	246,352		246,352	247,772		247,772	249,276		249,276	250,656		250,656
Cash dividends paid per common share	$	$	$	$	$	$	$	$	$	$ 0.25	$	$ 0.25

Income Statement Data	May 31, 2005			February 28, 2005			November 30, 2004			August 31, 2004		
(in thousands except per share amounts)	As Reported	Adjust-ments	As Restated	As Reported	Adjust-ments	As Restated	As Reported	Adjust-ments	As Restated	As Reported	Adjust-ments	As Restated
Net sales	$ 503,093	$	$ 503,093	$ 482,023	$	$ 482,023	$ 456,674	$	$ 456,674	$ 438,160	$	$ 438,160
Cost of sales	137,941	(254)	137,687	138,068	139	138,207	131,115	188	131,303	125,972	186	126,158
Gross profit	365,152	254	365,406	343,955	(139)	343,816	325,559	(188)	325,371	312,188	(186)	312,002
Selling, general and administrative expenses	188,265	(2,072)	186,193	179,224	1,111	180,335	166,305	1,511	167,816	160,460	1,497	161,957
Research and development expense	21,153	(508)	20,645	20,461	277	20,738	19,606	376	19,982	18,476	372	18,848
In-process research and development										26,020		26,020
Operating income	155,734	2,833	158,567	144,270	(1,527)	142,743	139,648	(2,075)	137,573	107,232	(2,056)	105,176
Other income, net	659	(56)	603	2,641	(117)	2,524	244	(117)	127	(728)	(117)	(845)
Provision for income taxes	53,193	1,122	54,315	50,127	(570)	49,557	48,693	(782)	47,911	46,071	(758)	45,313
Net income	$ 103,200	$ 1,655	$ 104,855	$ 96,784	$ (1,074)	$ 95,710	$ 91,199	$ (1,410)	$ 89,789	$ 60,433	$ (1,414)	$ 59,019
Earnings per share:												
Basic	$ 0.41	$ 0.01	$ 0.42	$ 0.38	$ (0.01)	$ 0.37	$ 0.36	$	$ 0.36	$ 0.24	$ (0.01)	$ 0.23
Diluted	0.41	0.01	0.42	0.38	(0.01)	0.37	0.36	(0.01)	0.35	0.24	(0.01)	0.23

Shares used in the computation of earnings per share:												
Basic	250,566		250,566	252,182		252,182	252,944		252,944	253,856		253,856
Diluted	251,825		251,825	253,994		253,994	255,225		255,225	255,950		255,950
Cash dividends paid per common share	$	$	$	$	$	$	$	$	$	$ 0.20	$	$ 0.20

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

The following tables set forth a summary of the Company s consolidated balance sheet as of the end of each of the quarterly periods during the years ended May 31, 2006 and 2005 (in thousands).

Balance Sheet Data (in thousands except par value)	May 31, 2006			February 28, 2006 (unaudited)			November 30, 2005 (unaudited)			August 31, 2005 (unaudited)		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated	Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Current assets:												
Cash and cash equivalents	$ 160,963		$ 160,963	$ 102,543		$ 102,543	$ 98,382		$ 98,382	$ 124,393		$ 124,393
Investments	6,380		6,380	8,100		8,100	8,075		8,075	7,978		7,978
Accounts and notes receivable, net	507,883		507,883	498,761		498,761	479,902		479,902	455,821		455,821
Inventories	534,515		534,515	523,323		523,323	495,624		495,624	471,659		471,659
Refundable income taxes		16,880	16,880		14,422	14,422		21,614	21,614			
Deferred income taxes	73,345	1,845	75,190	76,087	2,188	78,275	74,332	2,390	76,722	73,607	2,519	76,126
Prepaid expenses and other	32,342		32,342	41,315		41,315	42,496		42,496	37,017		37,017
Total current assets	1,315,428	18,725	1,334,153	1,250,129	16,610	1,266,739	1,198,811	24,004	1,222,815	1,170,475	2,519	1,172,994
Property, plant and equipment:	655,432		655,432	621,566		621,566	595,981		595,981	583,039		583,039
Less, accumulated depreciation	297,800		297,800	280,694		280,694	263,683		263,683	256,219		256,219
Property, plant and equipment, net	357,632		357,632	340,872		340,872	332,298		332,298	326,820		326,820
Investments	58,128		58,128	59,193		59,193	61,070		61,070	61,252		61,252
Goodwill	441,397		441,397	432,966		432,966	431,473		431,473	432,255		432,255
Intangible assets, net	79,498		79,498	80,595		80,595	83,511		83,511	85,772		85,772
Other assets	11,839		11,839	14,212		14,212	14,777		14,777	15,830		15,830
Total assets	$ 2,263,922	$ 18,725	$ 2,282,647	$ 2,177,967	$ 16,610	$ 2,194,577	$ 2,121,940	$ 24,004	$ 2,145,944	$ 2,092,404	$ 2,519	$ 2,094,923
Current liabilities:												
Short-term borrowings	$ 276,561		$ 276,561	$ 273,723		$ 273,723	$ 289,768		$ 289,768	$ 286,036		$ 286,036
Accounts payable	62,276		62,276	60,245		60,245	58,127		58,127	55,067		55,067

Accrued income taxes	6,356	(6,356)		9,764	(9,764)		5,309	(5,309)		36,390	(26,262)	10,128
Accrued wages and commissions	63,279	21,386	84,665	65,376	24,914	90,290	60,226	24,352	84,578	53,450	23,621	77,071
Other accrued expenses	111,960		111,960	97,094		97,094	94,469		94,469	87,432		87,432
Total current liabilities	520,432	15,030	535,462	506,202	15,150	521,352	507,899	19,043	526,942	518,375	(2,641)	515,734
Long term liabilities:												
Deferred income taxes	26,991		26,991	29,195		29,195	29,329		29,329	29,819		29,819
Total liabilities	547,423	15,030	562,453	535,397	15,150	550,547	537,228	19,043	556,271	548,194	(2,641)	545,553
Commitments and contingencies (Note N)												
Shareholders equity:												
Preferred shares, $100 par value												
Common shares	206,633		206,633	197,387		197,387	193,780		193,780	190,235		190,235
Additional paid-in capital	72,839	43,689	116,528	67,623	43,319	110,942	67,673	46,135	113,808	67,760	45,532	113,292
Retained earnings	1,419,297	(39,994)	1,379,303	1,375,532	(41,859)	1,333,673	1,328,932	(41,174)	1,287,758	1,288,268	(40,372)	1,247,896
Accumulated other comprehensive income	17,730		17,730	2,028		2,028	(5,673)		(5,673)	(2,053)		(2,053)
Total shareholders equity	1,716,499	3,695	1,720,194	1,642,570	1,460	1,644,030	1,584,712	4,961	1,589,673	1,544,210	5,160	1,549,370
Total liabilities and shareholders equity	$ 2,263,922	$ 18,725	$ 2,282,647	$ 2,177,967	$ 16,610	$ 2,194,577	$ 2,121,940	$ 24,004	$ 2,145,944	$ 2,092,404	$ 2,519	$ 2,094,923

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Biomet, Inc. & Subsidiaries

Notes To Consolidated Financial Statements (continued)

Balance Sheet Data (in thousands except par value)	May 31, 2005 As Reported	Adjustments	As Restated	February 28, 2005 (unaudited) As Reported	Adjustments	As Restated	November 30, 2004 (unaudited) As Reported	Adjustments	As Restated	August 31, 2004 (unaudited) As Reported	Adjustments	As Restated
Current assets:												
Cash and cash equivalents	$ 104,706		$ 104,706	$ 99,867		$ 99,867	$ 99,518		$ 99,518	$ 81,715		$ 81,715
Investments	10,962		10,962	10,902		10,902	10,907		10,907	14,449		14,449
Accounts and notes receivable, net	479,745		479,745	489,467		489,467	476,574		476,574	449,436		449,436
Inventories	469,791		469,791	456,612		456,612	446,711		446,711	424,997		424,997
Refundable income tax		15,989	15,989		13,581	13,581		15,817	15,817			
Deferred income taxes	72,732	2,379	75,111	79,654	2,453	82,107	85,748	2,750	88,498	85,748	2,924	88,672
Prepaid expenses and other	35,980		35,980	38,556		38,556	29,674		29,674	26,808		26,808
Total current assets	1,173,916	18,368	1,192,284	1,175,058	16,034	1,191,092	1,149,132	18,567	1,167,699	1,083,153	2,924	1,086,077
Property, plant and equipment:	574,398		574,398	558,109		558,109	527,423		527,423	493,631		493,631
Less, accumulated depreciation	251,511		251,511	243,392		243,392	228,626		228,626	210,058		210,058
Property, plant and equipment, net	322,887		322,887	314,717		314,717	298,797		298,797	283,573		283,573
Investments	61,406		61,406	61,994		61,994	63,880		63,880	62,453		62,453
Goodwill	435,621		435,621	440,896		440,896	439,335		439,335	436,471		436,471
Intangible assets, net	87,835		87,835	89,824		89,824	90,335		90,335	91,301		91,301
Other assets	14,912		14,912	15,239		15,239	16,261		16,261	16,441		16,441
Total assets	$ 2,096,577	$ 18,368	$ 2,114,945	$ 2,097,728	$ 16,034	$ 2,113,762	$ 2,057,740	$ 18,567	$ 2,076,307	$ 1,973,392	$ 2,924	$ 1,976,316
Current liabilities:												
Short-term borrowings	$ 282,193		$ 282,193	$ 300,461		$ 300,461	$ 324,676		$ 324,676	$ 311,920		$ 311,920
Accounts payable	57,021		57,021	57,771		57,771	55,548		55,548	53,455		53,455
Accrued income taxes	9,725	(9,725)		12,620	(12,620)		10,013	(10,013)		38,730	(24,456)	14,274
Accrued wages and commissions	62,171	23,180	85,351	52,594	26,512	79,106	50,707	25,443	76,150	46,710	23,960	70,670
Other accrued expenses	90,281		90,281	103,523		103,523	104,558		104,558	83,380		83,380

Total current liabilities	501,391	13,455	514,846	526,969	13,892	540,861	545,502	15,430	560,932	534,195	(496)	533,699
Long term liabilities:												
Deferred income taxes	31,255		31,255	32,346		32,346	34,981		34,981	38,188		38,188
Total liabilities	532,646	13,455	546,101	559,315	13,892	573,207	580,483	15,430	595,913	572,383	(496)	571,887
Commitments and contingencies (Note N)												
Shareholders equity:												
Preferred shares, $100 par value												
Common shares	188,162		188,162	184,509		184,509	178,585		178,585	172,681		172,681
Additional paid-in capital	67,613	44,671	112,284	60,908	43,555	104,463	60,720	43,476	104,196	60,388	42,349	102,737
Retained earnings	1,284,905	(39,758)	1,245,147	1,263,962	(41,413)	1,222,549	1,217,538	(40,339)	1,177,199	1,164,595	(38,929)	1,125,666
Accumulated other comprehensive income	23,251		23,251	29,034		29,034	20,414		20,414	3,345		3,345
Total shareholders equity	1,563,931	4,913	1,568,844	1,538,413	2,142	1,540,555	1,477,257	3,137	1,480,394	1,401,009	3,420	1,404,429
Total liabilities and shareholders equity	$ 2,096,577	$ 18,368	$ 2,114,945	$ 2,097,728	$ 16,034	$ 2,113,762	$ 2,057,740	$ 18,567	$ 2,076,307	$ 1,973,392	$ 2,924	$ 1,976,316

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Biomet, Inc. and Subsidiaries Schedule II Valuation and Qualifying Accounts.

for the years ended May 31, 2006, 2005 and 2004

(in thousands)

Description	Balance at beginning of period	Additions Charged to costs and expenses	Additions Charged to other accounts describe	Deductions describe	Balance at end of period
Allowance for doubtful receivables:					
For the year ended May 31, 2006	$ 59,513	$ 21,725	$ (351)(C)	$ 11,753(A)	$ 69,134
For the year ended May 31, 2005	$ 43,384	$ 29,116	$ 288(B) 1,005(C)	$ 14,280(A)	$ 59,513
For the year ended May 31, 2004	$ 18,742	$ 41,341	$ 1,195(B) 223(C) (3,555)(D)	$ 14,562(A)	$ 43,384
Excess and obsolete inventory reserves:					
For the year ended May 31, 2006	$ 93,046	$ 29,577	$ (1,290)(C)	$ 21,906(E)	$ 99,427
For the year ended May 31, 2005	$ 81,655	$ 34,792	$ 2,984(C)	$ 26,385(E)	$ 93,046
For the year ended May 31, 2004	$ 80,467	$ 37,338	$ 2,259(C) (16,170)(D)	$ 22,239(E)	$ 81,655

Notes:

(A) Uncollectible accounts written off
(B) Collection of previously written off accounts
(C) Effect of foreign currency translation
(D) Acquisitions
(E) Inventory written off

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not Applicable.

Item 9A. Controls and Procedures.

The following has been amended to reflect the restatement of the consolidated financial statements as discussed in the Explanatory Note immediately preceding Part I, Item 1 of this amended annual report on Form 10-K/A and Note A to the consolidated financial statements included herein. The required certifications of the Company s current Chief Executive Officer and Interim Chief Financial Officer are included as exhibits to this amended annual report on Form 10-K/A. The disclosures set forth in this Item 9A contain information concerning the evaluation of the Company s disclosure controls and procedures, internal control over financial reporting and changes in internal control over financial reporting referred to in those certifications. Those certifications should be read in conjunction with this Item 9A for a more complete understanding of the matters covered by the certifications.

(a) Evaluation of Disclosure Controls and Procedures (Revised). In connection with the restatement discussed in the Explanatory Note immediately preceding Part I, Item 1 of this amended annual report on Form 10-K/A and Note A to the consolidated financial statements included herein, the Company reevaluated, under the supervision and with the participation of its management, the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of May 31, 2006 and, based on this reevaluation, the Company s current Chief Executive Officer and Interim Chief Financial Officer concluded that, as a result of the material weakness in the Company s internal control over financial reporting discussed below and the restatement, the Company s disclosure controls and procedures were not effective as of May 31, 2006.

Management, along with the Company s Board of Directors, has implemented, or is in the process of implementing, remedial measures to address the material weakness discussed below. In addition, the Company performed additional analysis and other post-closing procedures prior to filing this amended annual report on Form 10-K/A with the SEC.

(b) Management s Report on Internal Control over Financial Reporting (As Revised). The management of Biomet is responsible for establishing and maintaining adequate internal control over financial reporting for the Company (including its consolidated subsidiaries) and all related information appearing in this amended annual report on Form 10-K/A. Internal control over financial reporting is a process designed by, or under the supervision of, the current Chief Executive Officer and Interim Chief Financial Officer, and effected by the Board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In Management s Report of Internal Controls Over Financial Reporting included in the Company s original annual report on Form 10-K for the fiscal year ended May 31, 2006 filed with the SEC on August 11, 2006, the Company s management concluded that the Company s internal control over financial reporting was effective as of May 31, 2006. Subsequently, management identified deficiencies in the Company s internal control over financial reporting with respect to its controls over the granting, administration, and accounting for stock options, namely, the Company did not maintain effective controls over the completeness, valuation, presentation and disclosure of share-based expense. As of May 31, 2006 the Company did not have an effective control designed and in place over the establishment of the appropriate grant date or the measurement date for determining share-based expense. These deficiencies resulted in the misstatement of the Company s share-based expense, payroll and other employee taxes, additional paid-in capital accounts, related income tax accounts, retained earnings, related financial disclosures and other accounts and resulted in this amended report to restate the Company s consolidated financial statements for each of the fiscal years ended May 31, 2006, 2005 and 2004 as discussed in Note A to the consolidated financial statements.

A material weakness is a significant deficiency or combination of significant deficiencies that result in there being a more than remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected. Public Accounting Oversight Board Auditing Standard No. 2 provides that the restatement of previously issued financial statements to reflect the correction of misstatements is a strong indicator of the existence of a material weakness in internal control over financial reporting.

As a result of the deficiencies described above, the Company s current management has revised the Company s earlier assessment and has now concluded that the Company had a material weakness as of May 31, 2006 and, therefore, the Company s internal control over financial reporting was not effective as of such date.

The framework on which such reevaluation was based is contained in the report entitled Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the *COSO Report*).

The Company is committed to eliminating the material weakness noted above by improving its internal control over financial reporting. Furthermore, the Company is not currently granting any stock option awards, and has not granted any stock option awards since December 2006. Management, along with the Company s Board of Directors, has implemented, or is in the process of implementing, the following changes to the Company s internal control over financial reporting:

- on February 26, 2007, the Company announced the appointment of Jeffrey R. Binder as President and Chief Executive Officer and a member of the Company s Board of Directors;

- on March 30, 2007, Gregory D. Hartman retired as Senior Vice President Finance, Chief Financial Officer and Treasurer, and Daniel P. Hann retired as Executive Vice President of Administration and a Director of the Company;

- on March 30, 2007, the Company announced the appointment of J. Pat Richardson as Vice President Finance and Interim Chief Financial Officer and Treasurer, and on May 14, 2007 the Company announced the appointment of Daniel P. Florin as Senior Vice President and Chief Financial Officer to become effective June 5, 2007;

- the Company appointed Bradley J. Tandy as Senior Vice President, General Counsel and Secretary.

- the Company s current Chief Executive Officer and Interim Chief Financial Officer have met with the key personnel throughout the Company who have significant roles in the establishment and maintenance of internal control over financial reporting and disclosure controls and procedures to emphasize the Company s commitment to enhancing the Company s internal control over financial reporting and disclosure controls and procedures;

- our current Chief Executive Officer, current senior management and the Board of Directors are committed to setting the proper tone regarding internal control over financial reporting and achieving

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transparency through effective corporate governance, a strong control environment, business standards reflected in our Code of Business Conduct and Ethics, and financial reporting and disclosure completeness and integrity;

the Company s Human Resources, Legal and Finance departments either have or will, prior to the Company s resumption of the issuance of stock option awards, be provided additional training and education designed to ensure that relevant individuals involved in the administration of stock option grants understand the terms of the Company s equity-based award plans and the relevant accounting guidance for stock options and other share-based payments; and

the Company s Human Resources, Legal and Finance departments will develop, prior to the Company s resumption of the issuance of stock option awards, formal, documented stock option grant procedures and practices to ensure systematic approval and execution of stock option grants and the proper recording of such grants in the Company s stock administration records and financial statements.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and the rules and regulations adopted pursuant thereto, the Company included a revised report of management s assessment of the effectiveness of its internal control over financial reporting as of May 31, 2006 as part of this amended annual report on Form 10-K/A. The Company s independent registered public accounting firm also attested to, and reported on, management s revised assessment of the effectiveness of internal control over financial reporting as of May 31, 2006. Management s revised report and the independent registered public accounting firm s attestation report are included on pages 42 and 43, respectively, of this amended annual report on Form 10-K/A and are incorporated herein by reference.

(c) Changes in Internal Control. During the fourth quarter of fiscal year 2006, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, to begin addressing the material weakness described above, subsequent to May 31, 2006, the Company s management has taken actions that are reasonably likely to materially affect the Company s internal control over financial reporting. These changes are described above under Management s Report on Internal Control over Financial Reporting (Revised).

Item 9B. Other Information

There was no information to be disclosed in a current Report on Form 8-K during the fourth quarter of fiscal year 2006 that was not previously reported.

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PART III

Item 10. Directors and Executive Officers of the Registrant.

Information regarding the background of directors, matters related to the Audit Committee and Section 16(a) compliance appears under the captions Item I Election of Directors and Section 16(a) Beneficial Ownership Reporting Compliance in the Company s definitive Proxy Statement filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with its 2006 Annual Meeting of Shareholders (the Proxy Statement), which is incorporated herein by reference in response to this item.

Information regarding executive officers of the Company is included in Part I, Item 1 of this Report under the caption Executive Officers of the Registrant.

There have been no material changes to the procedures by which shareholders may recommend nominees to the Company s Board of Directors since August 12, 2005, the date of the Company s last Proxy Statement.

The Company has adopted a Code of Business Conduct and Ethics (the Code) that applies to all of its employees, officers, and directors, including its Chief Executive Officer, Chief Financial Officer, and Controller, as well as certain other personnel associated with the Company. A copy of the Code is posted on the Company s website at www.biomet.com in the Corporate Governance section. A free copy of the Code may also be requested by contacting Biomet s Investor Relations Department at P.O. Box 587, Warsaw, IN 46581-0587 or at (574) 372-1514.

The Company has also adopted written charters for its Audit Committee and Nominating and Corporate Governance Committee, each of which is attached to the Proxy Statement and posted on the Company s website www.biomet.com in the Corporate Governance section. A free copy of the charters may also be requested by contacting Biomet s Investor Relations Department at P.O. Box 587, Warsaw, IN 46581-0587 or at (574) 372-1514.

Item 11. Executive Compensation.

The information included under the captions Election of Directors Compensation of Directors and Executive Compensation in the Proxy Statement is incorporated herein by reference in response to this item. The Report of the Compensation and Stock Option Committee is not incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information contained under the captions Stock Ownership in the Proxy Statement is incorporated herein by reference in response to this item.

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information regarding the securities to be issued and the securities remaining available for issuance under the Company s stock-based incentive plans as of May 31, 2006 (in thousands, except exercise price per share):

	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders	9,162,956	$ 33.84	4,618,962
Equity compensation plans not approved by security holders			
Total	9,162,956	$ 33.84	4,618,962

Further information about the Company s stock-based incentive plans can be found in Note 1 to the financial statements contained in Item 8 Consolidated Financial Statements and Supplementary Data of this annual report on Form 10-K/A. The Company does not have any plans not approved by its shareholders.

Item 13. Certain Relationships and Related Transactions.

The information contained under the caption Certain Transactions in the Proxy Statement is incorporated herein by reference in response to this item.

Item 14. Principal Accounting Fees and Services.

Information relating to the Company s auditors and the Audit Committee s pre-approval policies can be found under the caption Matters Relating to Auditors in the Proxy Statement which is incorporated herein by reference. The Audit Committee Report is not incorporated herein by reference.

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following financial statements and financial statement schedule are included in Item 8 herein.

(1) Financial Statements (Restated):

Management s Report on Internal Control over Financial Reporting
Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of May 31, 2006 and 2005
Consolidated Statements of Income for the years ended May 31, 2006, 2005 and 2004
Consolidated Statements of Shareholders Equity for the years ended May 31, 2006, 2005 and 2004
Consolidated Statements of Cash Flows for the years ended May 31, 2006, 2005 and 2004
Notes to Consolidated Financial Statements

(2) Financial Statement Schedule:

Schedule II - Valuation and Qualifying Accounts

(3) Exhibits:

Refer to the Index to Exhibits immediately following the signature page of this report, which is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized on May 29, 2007.

BIOMET, INC.

By: /s/ JEFFREY R. BINDER
Jeffrey R. Binder

President and Chief Executive Officer

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INDEX TO EXHIBITS

Exhibit Number Assigned in Regulation S-K, Item 601		Title of Exhibits
(2)		No exhibit
(3)	3.1	Amended Articles of Incorporation filed July 23, 1982. (Incorporated by reference to Exhibit 3(a) to Biomet, Inc. Form S-18 Registration Statement, File No. 2-78589C).
	3.2	Articles of Amendment to Amended Articles of Incorporation filed July 11, 1983. (Incorporated by reference to Exhibit 3.2 to Biomet, Inc. Form 10-K Report for year ended May 31, 1983, File No. 0-12515).
	3.3	Articles of Amendment to Amended Articles of Incorporation filed August 22, 1987. (Incorporated by reference to Exhibit 3.3 to Biomet, Inc. Form 10-K Report for year ended May 31, 1987, File No. 0-12515).
	3.4	Articles of Amendment to the Amended Articles of Incorporation filed September 18, 1989. (Incorporated by reference to Exhibit 3.4 to Biomet, Inc. Form 10-K Report for year ended May 31,1990, File No. 0-12515).
	3.5	Amended and Restated Bylaws as Amended December 13, 1997. (Incorporated by reference to Exhibit 3.6 to Biomet, Inc. Form 10-K Report for year ended May 31, 1998, File No. 0-12515).
(4)	4.1	Specimen certificate for Common Shares. (Incorporated by reference to Exhibit 4.1 to Biomet, Inc. Form 10-K Report for year ended May 31, 1985, File No. 0-12515).
	4.2	Rights Agreement between Biomet, Inc. and Lake City Bank as Rights Agent, dated as of December 16, 1999. (Incorporated by reference to Exhibit 4 to Biomet, Inc. Form 8-K Report dated December 16, 1999, File No. 0-12515), as amended September 1, 2002 to change rights agent to American Stock Transfer and Trust Company. (Incorporated by reference to Exhibit 4.2 to Biomet, Inc. Form 10-Q Quarterly Report dated January 13, 2003, File No. 0-12515).
(9)		No exhibit.
(10)	10.1	Employee and Non-Employee Director Stock Option Plan, dated September 18, 1992. (Incorporated by reference to Exhibit 19.1 to Biomet, Inc. Form 10-K Report for year ended May 31, 1993, File No. 0-12515).
	10.2	Form of Stock Option Agreement under the Employee and Non-Employee Stock Option Plan dated September 18, 1992. (Incorporated by reference to Exhibit 4.03 to Biomet, Inc. Form S-8 Registration Statement, File No. 33-65700).
	10.3	401(k) Profit Sharing Plan filed January 19, 1996. (Incorporated by reference to Form S-8 Registration Statement, File No. 333-00331).
	10.4	Biomet, Inc. 1998 Qualified and Non-Qualified Stock Option Plan adopted August 3, 1998. (Incorporated by reference to Exhibit 10.6 to Biomet, Inc. Form 10-K Report for year ended May 31, 1998, File No. 0-12515).
	10.5	Joint Venture Agreement between Biomet, Inc. and Merck KGaA dated as of November 24, 1997 (Incorporated by reference to Exhibit 2.01 to Biomet, Inc. Form 8-K Current Report dated February 17, 1998, File No. 0-12515).
	10.6	Purchase and Substitution Agreement dated March 19, 2004 by and among Merck KGaA, Biomet, Inc., BioHoldings UK Ltd. and Biomet Europe Ltd. (Incorporated by reference to Exhibit 10.1 to Biomet, Inc. Form 8-K current Report dated March 19, 2004, File No. 0-12515).

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Exhibit Number Assigned in Regulation S-K, Item 601		Title of Exhibits
	10.7	Agreement and Plan of Merger dated March 7,2004 among Biomet, Inc., Laker Acquisition Corp. I and Interpore International, Inc. (Incorporated by reference to Exhibit 1 to Biomet, Inc. Form SC 13D General Statement of Acquisition of Beneficial Ownership dated March 17, 2004, File No. 0-12515).
	10.8	Credit Agreement dated as of June 18, 2004, by and among Biomet, Inc., Bank of America, N.A. and UBS Securities LLC (Incorporated by reference to Exhibit 10.1 to Biomet, Inc. Form 8-K Current Report dated June 18, 2004, File No. 0-12515).
	10.9	Letter dated April 25, 2006 to Bart J. Doedens, M.D. describing compensation and relocation benefits (Incorporated by reference to Exhibit 10.9 to Biomet, Inc. Form 10-K Report for the year ended May 31, 2006, File No. 001-15601).
(11)		No exhibit.
(12)		No exhibit.
(13)		No exhibit.
(14)		No exhibit.
(16)		No exhibit.
(18)		No exhibit.
(21)	21.1	Subsidiaries of the Registrant.
(22)		No exhibit.
(23)	23.1	Consent of Independent Registered Public Accounting Firm.*
(24)		No exhibit.
(31)	31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
	31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
(32)	32.1	Written Statement of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

* Filed herewith
** Furnished herewith