

LVB Acquisition, Inc.  
 Form 10-K  
 August 29, 2013  
Table of Contents

UNITED STATES  
 SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended May 31, 2013.

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 Number 001-15601

LVB ACQUISITION, INC.  
 BIOMET, INC.

(Exact name of registrant as specified in its charter)

Delaware	26-0499682
Indiana	35-1418342
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

56 East Bell Drive, Warsaw, Indiana	46582
(Address of principal executive offices)	(Zip Code)

(574) 267-6639

(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act: LVB Acquisition, Inc. common stock, par value \$0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

LVB ACQUISITION, INC.	Yes	No	x
BIOMET, INC.	Yes	No	x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

LVB ACQUISITION, INC.	Yes	No	x
BIOMET, INC.	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.

LVB ACQUISITION, INC.	Yes	x	No
BIOMET, INC.	Yes	x	No

Edgar Filing: LVB Acquisition, Inc. - Form 10-K

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

LVB ACQUISITION, INC.	Yes	<input checked="" type="checkbox"/>	No
BIOMET, INC.	Yes	<input checked="" type="checkbox"/>	No

---

Table of Contents

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

LVB ACQUISITION, INC.

BIOMET, INC.

ý

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

LVB ACQUISITION, INC.

Large accelerated filer		Accelerated filer
Non-accelerated filer	x (Do not check if a smaller reporting company)	Smaller reporting company

BIOMET, INC.

Large accelerated filer		Accelerated filer
Non-accelerated filer	x (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

LVB ACQUISITION, INC.

Yes	No	x
-----	----	---

BIOMET, INC.

Yes	No	x
-----	----	---

As of May 31, 2013, there was no established public trading market for any of the common stock of the registrants. The number of shares of the registrants’ common stock outstanding as of July 31, 2013:

LVB ACQUISITION, INC. 552,359,416 shares of common stock

BIOMET, INC. 1,000 shares of common stock

DOCUMENTS INCORPORATED BY REFERENCE

None.

Table of Contents

## TABLE OF CONTENTS

	Page
Part I.	
Item 1. Business	<u>7</u>
Item 1A. Risk Factors	<u>25</u>
Item 1B. Unresolved Staff Comments	<u>42</u>
Item 2. Properties	<u>43</u>
Item 3. Legal Proceedings	<u>44</u>
Item 4. Mine Safety Disclosures	<u>44</u>
Part II.	
Item 5. Market for Registrant's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities	<u>45</u>
Item 6. Selected Financial Data	<u>46</u>
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>47</u>
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	<u>71</u>
Item 8. Financial Statements and Supplementary Data	<u>73</u>
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	<u>126</u>
Item 9A. Controls and Procedures	<u>126</u>
Item 9B. Other Information	<u>126</u>
Part III.	
Item 10. Directors, Executive Officers and Corporate Governance	<u>127</u>
Item 11. Executive Compensation	<u>131</u>
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>155</u>
Item 13. Certain Relationships and Related Transactions, and Director Independence	<u>159</u>
Item 14. Principal Accounting Fees and Services	<u>159</u>
Part IV.	
Item 15. Exhibits, Financial Statement Schedules	<u>160</u>
Signatures	<u>161</u>

Table of Contents

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements within the meaning of the U.S. federal securities laws. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements generally preceded by, followed by, or that include the words “believe,” “could,” “expect,” “forecast,” “intend,” “may,” “anticipate,” “plan,” “predict,” “possibly,” “project,” “potential,” “should,” “will” or similar expressions. These statements include, but are not limited to, statements related to:

- the timing and number of planned new product introductions;
- the effect of anticipated changes in the size, health and activities of the population or on the demand for our products;
- assumptions and estimates regarding the size and growth of certain market categories;
- our 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 our capital resources to meet the needs of our business;
- our continued investment in new products and technologies;
- the ultimate marketability of products currently being developed;
- our ability to successfully implement new technologies and transition certain manufacturing operations, including transitions to China;
- our ability to manage working capital and generate adequate cash flows to service outstanding debt;
- our ability to sustain sales and earnings growth;
- our success in achieving timely approval or clearance of our products with domestic and foreign regulatory entities;
- our success in implementing our operational improvement programs;
- the stability of certain foreign economic markets;
- the effect of foreign currency fluctuations on our results;
- the impact of anticipated changes in the musculoskeletal industry and our ability to react to and capitalize on those changes;
- our ability to successfully implement desired organizational changes;
- the impact of our managerial changes; and
- our ability to take advantage of technological advancements.

Table of Contents

Forward-looking statements reflect our current expectations and are not guarantees of performance. These statements are based on our management's beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to these forward-looking statements include, among others, assumptions regarding demand for our products, expected pricing levels, raw material costs, the timing and cost of planned capital expenditures, future regulatory reforms affecting the healthcare industry, expected outcomes of pending litigation and regulatory matters, the solvency of our insurers and the ultimate resolution of allocation and coverage issues with those insurers, competitive conditions and general economic conditions. Readers of this annual report are cautioned that reliance on any forward-looking statement involves risks and uncertainties.

Although we believe that the assumptions on which the forward-looking statements contained herein are based are reasonable, any of those assumptions could prove to be inaccurate given the inherent uncertainties as to the occurrence or nonoccurrence of future events. There can be no assurance that the forward-looking statements contained in this annual report will prove to be accurate. The inclusion of a forward-looking statement in this annual report should not be regarded as a representation by us that our objectives will be achieved. Forward-looking statements also involve risks and uncertainties, which could cause actual results to differ materially from those projected by any forward-looking statement. Many of these factors are beyond our ability to control or predict and could, among other things, cause actual results to differ from those contained in forward-looking statements made or incorporated by reference in this annual report and presented elsewhere by management from time to time. Such factors, among others, may have a material adverse effect upon our business, financial condition, results of operations and cash flows and may include, but are not limited to, factors discussed under the heading "Risk Factors" and the following:

- changes in general economic conditions and interest rates;
- changes in the availability of capital and financing sources;
- changes in competitive conditions and prices in our markets;
- changes to the regulatory environment for our products, including national health care reform;
- the effects of incurring or having incurred a substantial amount of indebtedness under our 6.5% senior notes, 6.5% senior subordinated notes and senior secured credit facilities;
- the effects upon us of complying with the covenants contained in our senior secured credit facilities and the indentures governing our 6.5% senior notes and 6.5% senior subordinated notes;
- restrictions that the terms and conditions of indentures governing our 6.5% senior notes and 6.5% senior subordinated notes and our senior secured credit facilities may place on our ability to respond to changes in our business or take certain actions;
- changes in the relationship between supply of and demand for our products;
- fluctuations in costs of raw materials and labor;
- the effect of foreign currency fluctuations on our results;
- changes in other significant operating expenses;
- decreases in sales of our principal product lines;
- slowdowns or inefficiencies in our product research and development efforts;
- increases in expenditures related to increased government regulation of our business;
- developments adversely affecting our sales activities inside or outside the United States;
- decreases in reimbursement levels by our customers, including certain of our foreign government customers that are experiencing financial distress;

Table of Contents

- difficulties in transitioning certain manufacturing operations to China and other locations;
- challenges in effectively implementing restructuring and cost saving initiatives;
- increases in cost-containment efforts from managed care organizations and other third-party payors;
- loss of our key management and other personnel or inability to attract such management and other personnel;
- increases in costs of retaining existing independent sales agents of our products;
- potential future goodwill and/or intangible impairment charges;
- unanticipated expenditures related to litigation; and
- failure to comply with the terms of the Deferred Prosecution Agreement.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date they were made. We do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated events. We intend to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 regarding our forward-looking statements, and are including this sentence for the express purpose of enabling us to use the protections of the safe harbor with respect to all forward-looking statements.

## Table of Contents

### Part I.

#### Explanatory Note

This Form 10-K is a combined annual report being filed separately by two registrants: LVB Acquisition, Inc. (“LVB” and “Parent”) and its wholly owned subsidiary, Biomet, Inc. Each registrant hereto is filing on its own behalf all of the information contained in this annual report that relates to such registrant. Each registrant hereto is not filing any information that does not relate to such registrant, and therefore makes no representation as to any such information.

#### Item 1. Business.

##### General

Currently, the principal asset of LVB is the ownership of 100% of the common stock of Biomet, Inc., which is an operating company. Biomet, Inc., an Indiana corporation incorporated in 1977, is one of the largest orthopedic medical device companies in the United States and worldwide with operations in more than 50 locations throughout the world and distribution in approximately 90 countries. Biomet, Inc.’s principal operating subsidiaries include Biomet U.S. Reconstruction, LLC; Biomet Orthopedics, LLC; Biomet Manufacturing, LLC; Biomet Europe BV; EBI, LLC; Biomet 3i, LLC; Biomet International Ltd.; Biomet Microfixation, LLC; Biomet Sports Medicine, LLC; Biomet Trauma, LLC; and Biomet Biologics, LLC. Unless the context requires otherwise, the term “LVB,” “Biomet,” “Company,” “we,” “our”, or “us” refers to LVB Acquisition, Inc. and all of its subsidiaries. We design, manufacture and market a comprehensive range of both surgical and non-surgical products used primarily by orthopedic surgeons and other musculoskeletal medical specialists. For over 30 years, we have applied advanced engineering and manufacturing technology to the development of highly durable joint replacement systems.

##### Transactions with the Sponsor Group

On December 18, 2006, Biomet, Inc. entered into an Agreement and Plan of Merger with LVB Acquisition, LLC, a Delaware limited liability company, which was subsequently converted to a corporation, LVB Acquisition, Inc., and LVB Acquisition Merger Sub, Inc., an Indiana corporation and a wholly-owned subsidiary of LVB (“Purchaser”), which agreement was amended and restated as of June 7, 2007 and which we refer to as the “Merger Agreement.” Pursuant to the Merger Agreement, on June 13, 2007, Purchaser commenced a cash tender offer (the “Offer”) to purchase all of Biomet, Inc.’s outstanding common shares, without par value (the “Shares”) at a price of \$46.00 per Share (the “Offer Price”). Approximately 82% of the outstanding Shares were tendered to Purchaser in the Offer. At Biomet, Inc.’s special meeting of shareholders held on September 5, 2007, more than 91% of its shareholders voted to approve the proposed merger, and LVB acquired Biomet, Inc. on September 25, 2007 through a reverse subsidiary merger, with Biomet, Inc. being the surviving company (the “Merger”). Subsequent to the acquisition, Biomet, Inc. became a subsidiary of LVB, which is controlled by LVB Acquisition Holding, LLC, or “Holding,” an entity controlled by a consortium of private equity funds affiliated with the Sponsors (as defined below) and their co-investors.

##### Competitive Strengths

We believe we have a number of competitive strengths that will enable us to further enhance our position in the orthopedic medical device market.

**Broad Market Leadership.** We believe we are the fourth largest player in the U.S. orthopedic reconstructive market and have maintained this position for over a decade. In addition, we are a leading provider of dental reconstructive devices worldwide and maintain market leadership positions in the electrical stimulation and craniomaxillofacial fields.

**Strong Relationships with Surgeon Customers.** As a result of their satisfaction with our products, we enjoy long-standing relationships with our surgeon customers, many of which commence during the surgeons’ residency training programs. Our support of medical education programs provides important training opportunities for orthopedic surgeons early in their careers. Supporting “hands-on” training provides opportunities for residents, fellows and attending surgeons to experience the clinical benefits of our products. Surgeons have historically exhibited limited willingness to switch manufacturers, as successful patient outcomes are related to the practitioners’ familiarity with the procedural characteristics and instrumentation of certain implants.





## Table of Contents

**Consistently Strong Operating Cash Flow Generation.** Our business is characterized by consistently strong operating cash flows due to our robust operating history and moderate capital intensity. We have continually increased revenues, with fiscal year 2013 representing our 35th consecutive year of year-over-year net sales growth. Over the last 20 years, from fiscal year 1993 through fiscal year 2013, we increased net sales at a compounded annual growth rate of approximately 12%. We have sustained growth through multiple macro-economic cycles, demonstrating a stable business profile. In addition, we have historically had modest capital expenditures and working capital requirements, providing for strong operating cash flow conversion.

**Experienced and Dedicated Management Team.** We have a highly experienced management team at both the corporate and operational level. Our team is led by Jeffrey R. Binder, a 22-year veteran of the orthopedic medical device industry, who was appointed President and Chief Executive Officer in February 2007. Daniel P. Florin was appointed Senior Vice President and Chief Financial Officer in June 2007 and brings 21 years of financial officer/controller experience in the medical device industry and five years of public accounting and auditing experience to us. In February 2008, Jon C. Serbousek was appointed President of Biomet Orthopedics and was recently appointed as President, Biomet Biologics, having spent 8 years with Medtronic and 13 years with DePuy, for a total of 26 years in the medical device industry. Adam Johnson was appointed Senior Vice President and President of EBI, LLC, d/b/a Biomet Spine & Bone Healing Technologies in June 2012, having previously served and continuing to serve as President of Biomet Microfixation and brings 13 years of experience in the medical device industry.

**Premier Equity Sponsorship.** The Blackstone Group, Goldman, Sachs & Co., Kohlberg Kravis Roberts & Co. and TPG (together the “Sponsors”) are among the most well-known and respected financial sponsors in the world. The Sponsors have collectively made investments in over 950 companies. The Sponsors have considerable experience in the healthcare sector with investments in companies such as HCA Holdings, Inc., IASIS Healthcare Corporation, Quintiles Transnational Corp., DJO Global and Vanguard Health Systems, Inc., among others.

### **Economic Uncertainties**

Our results of operations could be substantially affected not only by global economic conditions, but also by local operating and economic conditions, which can vary substantially by market. Unfavorable conditions can depress sales in a given market and may result in actions that adversely affect our margins, constrain our operating flexibility or result in charges which are unusual or non-recurring.

### **Regulatory and Other Uncertainties**

In the United States, healthcare providers that purchase our products (e.g., hospitals, physicians, 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. In March 2010, comprehensive health care reform legislation was enacted through the passage of the Patient Protection and Affordable Health Care Act (H.R. 3590) and the Health Care and Education Reconciliation Act (H.R. 4872). Among other initiatives, these laws impose a 2.3% excise tax on domestic sales of medical devices following December 31, 2012, which is estimated to contribute approximately \$20 billion to healthcare reform. Various healthcare reform proposals have also emerged at the state level. Outside of the excise tax, which has impacted our results of operations and cash flows following December 31, 2012, we cannot predict with certainty what healthcare initiatives, if any, will be implemented at the state level, or what the ultimate effect of federal health care reform or any future legislation or regulation will have on us. However, an expansion in government’s role in the U.S. healthcare industry may lower reimbursements for our products, reduce medical procedure volumes and adversely affect our business, results of operations and cash flows, possibly materially.

Outside the United States, reimbursement systems vary significantly from country to country. If adequate levels of reimbursement from third-party payors outside the United States are not obtained, international sales of our products may decline. Many foreign markets, including Canada and some European and Asian countries, have tightened reimbursement rates. Our ability to continue to sell certain products profitably in these markets may diminish if the government-managed healthcare systems continue to reduce reimbursement rates, which can decrease pricing and procedural volume.

### **Business Strategy**

We intend to enhance our position as a leading orthopedic medical device company by pursuing the following strategic initiatives:

8

---

## Table of Contents

Continue to Develop and Launch New Products and Technologies. The New Product Introduction (“NPI”) process is a global portfolio and project management approach that helps bring visibility and control to all commercial aspects of new product development projects. The process, which is managed by each of our global Product organizations, breaks each project down into six stages of work and further divides these stages by formal review gates. We have a single database of all of our development projects that is easily filtered and sorted to generate customized project roadmaps that serve as communication tools providing visibility to all functional teams. The database is designed to prioritize and focus the portfolio and also ensure that the workload is properly resourced and managed across the business. Projects are assessed against pre-determined gate criteria. The global Product organizations select and prioritize projects that can be adequately resourced and help deliver product category growth targets, satisfy specific hurdle rates and strategic drivers and provide a balanced product portfolio.

Enhance Surgeon Customer Relationships through Product Performance and Innovation. We intend to continue to meet the needs of our surgeon customers and hospital customers by providing clinically successful and innovative products that offer a cost-effective means of treating patients. Our success has been built on responsiveness to the needs of the healthcare community, the clinical performance of our products and our ongoing commitment to continued product innovation.

Expand Our Global Reach. We intend to continue to increase the geographic presence of each of our business categories. We believe there are considerable opportunities for global expansion as healthcare spending increases in international markets—the United States accounted for almost 60% of the global orthopedic market in 2012. The United States, Europe and Japan totaled more than 80% of the global orthopedic market in 2012, but less than 20% of the world’s 7 billion people live in these three geographic regions. We particularly plan to focus on deepening our position in under-penetrated regions where we believe there are attractive opportunities for growth, including Asia and Latin America, by deploying more resources to capture market opportunities, as well as by leveraging our established worldwide manufacturing facilities and sales force. We believe we can successfully grow our presence in these regions by differentiating ourselves as a provider with a comprehensive portfolio of leading musculoskeletal products. Focus on Operational Efficiency. We believe we have identified significant opportunities to streamline operations. We believe the historically decentralized nature of our management and decision-making structure creates opportunities to improve operational efficiency as we centralize operations and increase focus, coordination and accountability throughout the organization. Plans include manufacturing footprint optimization, implementation of Six Sigma and Lean Manufacturing, procurement and offshoring initiatives, as well as reduction in overhead expenses. These changes were initiated during fiscal year 2008, continued through fiscal year 2013 and are expected to continue into future fiscal years. We believe these changes will enable us to maximize asset utilization, optimize working capital and increase cash flow, as well as accelerate product development and enhance customer service.

Maximize Financial Performance. We are focused on maximizing our adjusted EBITDA, free cash flow and adjusted net income. Over the last 20 years, we have generated significant operating cash flow due to our business growth, strong operating margins and modest capital expenditure and other cash requirements. These business fundamentals have been supplemented by working capital improvement initiatives, which historically had not been a primary focus area of management. In addition, we have benefited and believe we will continue to benefit from identified cost savings as we enhance operational efficiencies. We plan to use available cash after capital expenditures primarily to reduce leverage, strengthen our balance sheet and make strategic acquisitions.

## Products

We operate in one reportable business segment, musculoskeletal products, which includes the design, manufacture and marketing of products in five major categories: Large Joint Reconstructive, Sports, Extremities, Trauma (“S.E.T.”), Spine & Bone Healing, Dental and Other Products. We have three geographic markets: United States, Europe and International.

The following charts set forth our net sales by product category and geographic markets for the fiscal year ended May 31, 2013. For certain financial information concerning our product categories and geographic markets, see Note 14 to our audited consolidated financial statements for the fiscal year ended May 31, 2013 included elsewhere in this annual report.



Table of Contents

Year Ended May 31, 2013

Large Joint 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. Our primary orthopedic reconstructive joints are knees and hips. We also produce the associated instruments required by orthopedic surgeons to implant our reconstructive products, as well as bone cements and cement delivery systems. Our PMI<sup>®</sup> (Patient-Matched Implant) services group designs, manufactures and delivers patient-specific reconstructive devices to orthopedic specialists. We believe this service continues to enhance our reconstructive sales by strengthening our business relationships with orthopedic surgeons and augmenting our reputation as a responsive company committed to excellent product design. In order to assist orthopedic surgeons and their surgical teams in preoperative planning, our PMI<sup>®</sup> group utilizes a three-dimensional, or 3-D, bone reconstruction imaging system. We use computed tomography, or CT, data to produce 3-D reconstructions for the design and manufacture of patient-matched implants. With this imaging and model-making technology, our PMI<sup>®</sup> group is able to assist the physician prior to surgery by creating 3-D models. Within strict guidelines, the model is used by engineers, working closely with a surgeon, to create a PMI<sup>®</sup> design for the actual manufacturing of the implant for a specific patient.

**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, traditionally referred to as unicompartmental, knee replacement is an option when only a portion of the knee requires replacement. Our most comprehensive total knee system, the Vanguard<sup>®</sup> Complete Knee System, accommodates up to 145 degrees of flexion, provides advanced sizing options and offers full interchangeability of the system's components to provide for a precise fit for each patient. The Vanguard<sup>®</sup> Complete Knee System is supported by five instrumentation platforms: Microplasty<sup>®</sup>, Premier<sup>™</sup>, Microplasty<sup>®</sup>Elite, Vanguard<sup>®</sup> Tensor and Vanguard<sup>®</sup> Anterior Referencing systems, accommodating a number of workflows and techniques.

During fiscal year 2013, we continued our global commercial launch of the Vanguard<sup>®</sup> SSK 360 Revision System, our newest knee revision offering. This innovative system, which is an extension of our Vanguard<sup>®</sup> Complete Knee System, is designed to offer optimum stability while maximizing options for intraoperative implant and instrumentation flexibility.

Biomet continues to globally lead the patient specific instrument market with the Signature<sup>™</sup> System. The Signature<sup>™</sup> System uses a patient's MRI or CT data to deliver patient-specific positioning guides to the surgeon for improved pre-operative planning, custom positioning of the implants, and improved surgical efficiency. Signature Technology is currently utilized for implantation of the Vanguard<sup>®</sup> Complete Knee System and the Oxford<sup>®</sup> Partial Knee System. The Signature<sup>™</sup> System was developed through a partnership with Materialise NV.

## Table of Contents

During fiscal year 2013, E1<sup>®</sup> Antioxidant Infused Technology Tibial Bearings continued to receive strong market acceptance. The E1<sup>®</sup> technology provides Vitamin E infused highly cross-linked polyethylene, which is designed to offer strength and oxidative stability for implant longevity.

We believe we continue to be the market leader for products accommodating minimally-invasive knee techniques. The Oxford<sup>®</sup> Partial Knee, which was introduced in the United States during fiscal 2005 and has been commercially available in Europe for 35 years, is currently the only free-floating meniscal bearing unicompartmental knee system approved by the U.S. Food and Drug Administration, or “FDA,” for use in the United States. Our offering of minimally-invasive partial knee systems also includes the Alpina<sup>™</sup> Unicompartmental Knee (which is not currently available in the United States); the Vanguard M<sup>™</sup> Series Unicompartmental Knee System, a modified version of the Oxford<sup>®</sup> Partial Knee that incorporates a fixed-bearing tibial component as opposed to a free-floating tibial bearing; and the Repicci II<sup>®</sup> Resurfacing Knee System.

Hip Systems. A total hip replacement involves the replacement of the head and neck 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. Many of our femoral prostheses utilize our proprietary PPS<sup>®</sup> Porous Plasma Spray coating, which enables cementless fixation.

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, we manufacture femoral and acetabular prostheses in a variety of sizes and configurations. We offer a broad array of total hip systems, most of which utilize titanium or cobalt chromium alloy femoral components and our ArCom<sup>®</sup>, ArComXL<sup>®</sup> or E1<sup>®</sup> polyethylene-lined, metal-on-metal or ceramic-on-ceramic acetabular components.

From our broad product platform of hip stem offerings, the Taperloc<sup>®</sup> Hip System has become our best-selling component. The Taperloc<sup>®</sup> Stem is marketed for non-cemented use in patients undergoing primary or revision hip replacement surgery as a result of noninflammatory degenerative joint disease. The Taperloc<sup>®</sup> femoral component is a collarless, flat, wedge-shaped device that is relatively simple to implant and is particularly well-suited for minimally-invasive procedures. The Taperloc<sup>®</sup> Complete stem combines the proven clinical data of the Taperloc stem with subtle design changes to better address the fit and biomechanics of patients. We also offer the Taperloc<sup>®</sup> Microplasty<sup>®</sup> and Taperloc<sup>®</sup> Complete Microplasty<sup>®</sup> stems that address the demand for a minimally-invasive, bone-conserving total hip implant. The shorter length of the Microplasty<sup>®</sup> Stem, compared to a traditional hip stem, allows for preservation of distal bone, while maintaining proximal femoral bone fixation. During fiscal year 2013, we introduced the Taperloc<sup>®</sup> Complete XR 123°. This stem is designed to accommodate a larger range of offsets to better restore patient biomechanics.

Our comprehensive Microplasty<sup>®</sup> Minimally Invasive Hip Program includes proprietary products from our broad array of hip implants, as well as a distinctive training program and uniquely-designed instruments for a minimally-invasive approach. Our minimally-invasive hip development efforts have been focused on various surgical approaches, including an anterior supine intermuscular surgical approach.

The Echo<sup>®</sup> Bi-Metric<sup>®</sup> stem, which is a cementless press-fit stem for primary total hip procedures, utilizes proven features of the Integral<sup>®</sup> and Bi-Metric<sup>®</sup> stems, while integrating new design features to further enhance clinical performance by accommodating a wider range of femoral canals, allowing for increased range of motion, and providing standard and lateralized offset options to restore biomechanics.

In our acetabular portfolio, Biomet’s E1<sup>®</sup> Antioxidant Infused bearing technology utilizes Vitamin E, a natural antioxidant, and is expected to provide optimal oxidation resistance for the implant bearings used in our total joint replacements. We market ArComXL<sup>®</sup> polyethylene, which is a highly crosslinked polyethylene bearing material based on our proven ArCom<sup>®</sup> polyethylene. We also offer ceramic-on-ceramic and metal-on-metal bearing technologies in a variety of acetabular systems to suit surgeon preference.

The Active Articulation<sup>™</sup> E1System and our Active Articulation<sup>™</sup> ArComXLSystem are dual-mobility acetabular systems that are developed to provide the benefits of a large head design, including the potential for increased range of motion and low risk of dislocation.

The Regenerex<sup>®</sup> Construct unites the proven clinical history of titanium with an enhanced interconnecting pore structure, resulting in an innovative material that provides for biologic fixation and offers design flexibility and solutions for difficult primary and revision procedures. The advanced titanium scaffold structure of the Regenerex<sup>®</sup>



Table of Contents

Construct is a continuous three-dimensional matrix comprised of industry-standard Ti-6AL-4V. Titanium is a clinically proven material in the orthopedic market, with optimal biological fixation, and the Regenerex® construct is expected to be the material of choice for porous metal constructs.

We introduced our Arcos® Modular Femoral Revision System in fiscal year 2011, which contributed to our revision hip sales growth for fiscal years 2012 and 2013. The Arcos® System offers surgeons the ability to select from a range of interchangeable components intraoperatively, using a single set of instruments.

Bone Cements and Accessories, and Other Large Joint Reconstructive Products and Services. We offer a wide range of acrylic bone cements and cementing systems for various clinical applications including primary and revision reconstructive joint procedures. Our broad portfolio of high, medium and low viscosity cements, with or without antibiotics, along with our cementing systems provide solutions for most clinical situations where bone cement is required.

We have broadened the range of our internally developed and manufactured bone cement product offerings with both Cobalt™ HV (High Viscosity) Bone Cement and Cobalt™ MV (Medium Viscosity) Bone Cement, which are particularly well suited for use in minimally-invasive surgery, but may be used in all applicable joint replacement procedures. In addition, we maintain a market leading position in Europe with our Refobacin and Biomet Bone Cement product lines. The excellent handling characteristics and high optical contrast of our cements are well suited to the current trends in orthopedic surgery. The SoftPac™ monomer packaging offers the only alternative to glass vial packaging, which is inherently less safe due to the necessity to break the glass vial to deliver the monomer. OptiPac™ is a closed vacuum mixing system pre-packed with both polymer and monomer, which eliminates several steps in the mixing procedure. During fiscal year 2013, the OptiPac™ closed vacuum system continued to receive strong market demand, reinforcing our position as the leader in the European bone cement market. In addition, during fiscal year 2012, we launched OptiPac™ Knee, specifically designed to address partial, hybrid and two-step total knee procedures.

Our portfolio of cementing systems includes the Optivac® Mixing System, which provides mixing and collection under vacuum for optimal porosity reduction. In addition to improving bone cement quality, these systems are also designed to reduce the level of monomer exposure in the operating room and minimize direct contact with the cement, thereby creating a safer working environment.

We market the StageOne™ Select Hip Cement Spacer Molds, which are single-use molds designed to create a temporary cement spacer for patients undergoing a two-stage revision. Design features of StageOne™ Select Hip Cement Spacer Molds provide the surgeon with more options and help enhance patient fit during the first-stage of a two-stage revision. We also offer StageOne™ Select Hip Cement Spacer Molds in Europe. We offer cement spacer mold options for both hip and knee revision procedures.

Sports, Extremities, Trauma (S.E.T.) Devices

Our S.E.T. product category includes sports medicine products, extremity devices, and trauma hardware.

Sports Medicine Products. We manufacture and market a line of 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.

We market several sports medicine products that feature ZipLoop™ Technology, a weave in which a single strand of braided polyethylene is woven through itself twice in opposite directions. This construct allows the production of innovative products that can vary in length and compression/tension, addressing the individual needs of each patient. Since the surgeon has the ability to vary the length of the implant, this eliminates the need for multiple sizes and requires minimal instrumentation. The technology is now being utilized to repair injuries in the shoulder, elbow, knee and foot and ankle.

The JuggerKnot™ Soft Anchor - 1.4mm is cleared for several indications, including labral repair. This product is completely suture-based. The key to a labral repair is to remove the least amount of bone possible, and the smaller anchor diameter allows multiple anchors to be placed without removing large amounts of bone. During fiscal year 2012, we launched additional sizes of the JuggerKnot™ Soft Anchor family, including the 1.5mm



## Table of Contents

JuggerKnot™ Soft Anchor, the 2.9mm JuggerKnot™ Soft Anchor double loaded and the 1.0mm JuggerKnot™ Soft Anchor, which are indicated for various soft tissue bone fixation repairs.

We offer the TunneLoc® Tibial Fixation Device, with a hands-free tensioner that maintains tension during the insertion of the implant, which we believe is a unique feature. This allows the surgeon to set the tension on the inserter as needed and once locked, the surgeon is able to cycle the knee. In addition, the graft tensioner and inserter eliminate the need for reusable instruments, saving costly preparation time.

Extremity Systems. We offer a variety of shoulder systems including the Absolute® Bi-Polar, Bi-Angular®, Bio-Modular®, Comprehensive®, T.E.S.S., Copeland™, Integrated™ and Mosaic™ Shoulder Systems, as well as uniquely-designed elbow replacement systems, such as the Discovery® Elbow and ExploR® radial head.

The Comprehensive® Shoulder System takes a platform approach to shoulder surgery by allowing for true intra-operative flexibility and streamlined instrumentation. The system features standard, mini and micro-length primary stems as well as a longer revision stem option, all of which can be used with or without bone cement. We also offer Versa-Dial® heads that provide a more precise fit, while minimizing any extra inventory burden for the surgeon, hospital, and distributor. The Comprehensive® System also features a Hybrid glenoid implant that makes use of our newly released Access instruments for a simplified, 4-step glenoid preparation.

The Comprehensive® Reverse Shoulder System takes advantage of our platform approach to shoulder surgery and extensive stem offering. The modular 6.5mm central screw for the glenoid baseplate provides for fixation into the scapula, allowing the surgeon to position the baseplate into the best available bone. We've recently introduced a smaller baseplate, as well as an E1® polyethylene bearing option.

The T.E.S.S. shoulder system, commercially available in Europe, was developed to provide a minimally-invasive, bone conserving solution for all shoulder arthroplasty indications. The T.E.S.S. shoulder was the first system to introduce the concept of stem-less shoulder arthroplasty to the market.

Building on the success of the T.E.S.S. shoulder, the Comprehensive® Nano shoulder features our Porous Plasma Spray technology and reverse morse taper, making it fully compatible with the Comprehensive® platform. The Comprehensive® Nano shoulder is commercially available in Europe and other markets outside the U.S.

The Copeland™ Humeral Resurfacing Head was developed to minimize bone removal in shoulder procedures and has approximately 20 years of positive clinical results in the United Kingdom. This system was expanded to include the Copeland™ EAS™ (Extended Articular Surface) Humeral Resurfacing Head, designed to address rotator cuff arthropathy.

Trauma Internal Fixation Devices. Internal fixation devices include products such as intramedullary (IM) 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 acute reconstructive procedures. By holding and stabilizing alignment of the reduced fracture, internal fixation products 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.

Biomet develops, manufactures and distributes innovative products for the internal fixation market. On June 15, 2012, we acquired the worldwide trauma business of DePuy Orthopaedics, Inc. for approximately \$280.0 million, broadening and deepening our trauma product portfolio. We now offer a complete product line of low-profile, locked periarticular plates and hub-and-spoke mini and small fragment sets, which utilize platform technologies.

The Biomet® DVR® System offers a market leading innovative volar approach for treating fractures of the distal radius. Our F.A.S.T. Guide® Technology is designed to improve intraoperative efficiencies and is a platform technology shared in the S3® proximal humeral plating system, and all A.L.P.S.™ mini and small low profile locking plates. All plates, including the POLYAX® distal femoral and proximal tibial periarticular plates, are strengthened by a proprietary type II titanium alloy anodizing process branded TiMAX®.

The Biomet® ePAK™ Single-Use Delivery System addresses distal radius fractures and features the DVR® Crosslock implants and instrumentation. This system is a pre-sterilized, single-use procedure pack engineered to add value by addressing the productivity needs of the operating room in one complete package. The ePAK™ Single-Use

## Table of Contents

Delivery System is designed to revolutionize the internal fixation market by providing a means to be more efficient, to save time and to improve OR productivity.

The Biomet® PTN and Phoenix™ femoral and tibial IM nail product portfolio is now deepened with the addition of AFFIXUS® hip fracture and VersaNail® IM nails, which utilize TiMAX® technology. The AFFIXUS® nail utilizes highly intuitive, efficient, streamlined instrumentation and offers both intraoperative and post operative rotational control/stability of the femoral head, providing a competitive hip fracture solution.

Trauma External Fixation Devices. External fixation devices are used to stabilize fractures when alternative methods of fixation are not suitable due to a variety of clinical indications, including treatment of open fractures. We offer a complete line of solutions for various segments of the fracture and reconstructive external fixation markets.

Our external fixation products are modular devices intended for use in simple and/or complex fractures of upper extremities, the pelvis and lower extremities. The Biomet® Vision™ Unilateral Fixator is a carbon-based external fixation device intended for use in the treatment of bone conditions including leg lengthening, osteotomies, arthrodesis and fracture fixation addressing periarticular, diaphyseal and other fractures amenable to temporary, or to definitive external fixation measures. This device offers serrated mechanical locks that allow for up to 120 degrees of articulation for controlled fracture reduction and radiolucency for unobstructed radiographic imaging of the fracture site.

### Spine and Bone Healing Products

Our spinal products include spinal fixation systems, implantable and non-invasive electrical stimulation devices for spinal applications, osteobiologics (including allograft services). Our bone healing products include non-invasive electrical stimulation devices for long bone and pelvic fractures for orthopedic applications. These products and services are primarily marketed in the United States under the Biomet Spine & Bone Healing Technologies trade name.

Spinal Fixation Systems. We market spinal fixation devices for various spinal fusion applications. In the thoracolumbar market segment, we offer the Polaris™ Spinal System, a low profile, top-loading, thoracolumbar system utilizing a Helical Flange® (a registered trademark of Roger P. Jackson) closing mechanism, among other systems. The Helical Flange® feature minimizes the potential for cross-threading and seat splay, simplifying the implant closing procedure for the surgeon. In addition, we recently incorporated Biomet's Translation™ Screw technology into the Polaris™ System. This technology allows the screw head to translate up to 3mm medial-lateral relative to the screw shaft to ease rod introduction and encourage optimal screw placement. The Translation™ Screw and Thread profile are designed for improved performance and purchase in cortical and cancellous bone with the thread form providing tactile insertion and maximizing bone purchase. The Polaris™ System is available in titanium or stainless steel in 6.35mm or 5.5mm rod diameters, with various screw, hook and rod options. With the 5.5mm diameter rod system, we market titanium, stainless steel and cobalt chrome rod material options. These multiple rod materials and diameters provide surgeons with treatment options for various types of deformity patients. Additionally, the Polaris™ system features the Trivium® instrumentation permitting direct vertebral body rotation and correction as well as the new DeReduction® System, which provides an efficient combination of rod reduction and vertebral body derotation. The DeReduction® System provides unparalleled correction technique flexibility by decoupling the sequence of rod reduction, then derotation, with secure engagement and self-centering capability.

We offer a variety of spacer products for the thoracolumbar and cervical market segments. The Solitaire™ Anterior Spinal System is a stand-alone device with numerous implantation options for intraoperative flexibility when performing an Anterior Lumbar Interbody Fusion (ALIF) procedure. This system is available with implants manufactured from titanium or PEEK-OPTIMA® (a registered trademark of Invibio® Limited) polymer, an implant option for increased radiographic fusion assessment. We also recently launched the Solitaire™-C Cervical Spacer System, a zero profile anterior cervical fusion device with a large graft cavity and multiple footprint options. The unique spacer band assists with accurate radiographic visualization and the sophisticated instrumentation simplifies implantation.

We also offer the ESL®, C-Thru™ and Zyston® interbody spacers. All three of these spacers feature open designs to permit ample space for bone graft placement. The ESL® System has an elliptical shape, offering optimal surface contact with the vertebral body endplates. The Zyston® System is available in straight and curved models to conform

to the anterior shape of the adjacent vertebral body. The ESL<sup>®</sup> and Zyston<sup>®</sup> spacers are utilized for Posterior Lumbar Interbody Fusion (PLIF) and/or Transforaminal Interbody Fusion (TLIF) procedures. The C-

## Table of Contents

Thru™ spacer is indicated for Cervical Interbody Fusion. All three interbody spacers are available in PEEK-OPTIMA® (a registered trademark of Invibio® Limited) polymer for increased radiographic fusion assessment.

For cervical fixation applications, the open design of the VueLock® Anterior Cervical Plate System provides surgeons with enhanced visualization of the bone graft both during the actual surgical procedure and postoperatively on x-ray. We also offer the C-TEK® Anterior Cervical Plate, which provides a non-constrained, semi-constrained or a completely rigid construct, depending on the surgeon's preference. Made of titanium, the C-TEK® Plate offers both fixed and variable screws in a wide variety of diameters and lengths, and features a unique locking mechanism to prevent screw back out. The MaxAn® Anterior Cervical Plate System, which incorporates technology developed by Gary K. Michelson, M.D., has a unique design that allows for maximum angulation of the screws. This technology permits the surgeon to utilize a shorter plate, which helps optimize plate placement to potentially prevent impingement of the adjacent healthy disc. The MaxAn® Anterior Cervical Plating System is the only anterior cervical plate with a design rationale to help minimize the risk of adjacent level ossification, and it has the widest cephalad/caudal screw angle sweep of any cervical plate thereby permitting screw purchase in denser bone. Finally, the innovative trial drill guide provides for proper screw and plate placement.

For cervical and upper thoracic procedures, we offer the Altius™ M-INI™ Occipito-Cervico-Thoracic Spinal Fixation System, which features top-loading screws and a 3.5mm rod for maximum strength. This system also incorporates Helical Flange® (a registered trademark of Roger P. Jackson) Locking Technology. Occipital fixation is also available with the Altius™ M-INI™ System, featuring a low-profile plate that is placed independently from the pre-contoured rod. In addition, we recently launched the Lineum® OCT System as the first of three Biomet systems to incorporate the Game Changing Translation™ Screw technology, providing 3mm of medial-lateral screw translation to encourage optimal screw placement, less rod manipulation, and easier rod introduction. The third new cervical system that was launched in past year is the Gallery™ Laminoplasty System, which is a smart, simple to use system with intuitive design features that hold the graft in place to prevent spinal cord impingement in the lower cervical and upper thoracic spine. Minimally-invasive surgery is of growing interest in the practices of many spine surgeons. In the minimally-invasive surgery market, we offer the Ballista® Percutaneous Pedicle Screw Placement System and the AccuVision® Minimally Invasive Access System. These systems address both the mini-open and percutaneous screw placement minimally invasive approaches.

To address the vertebral body compression fracture market, we offer two systems designed for the delivery of materials to weakened bone structures, including the CDV™ and LP2™ Delivery Systems. Through a series of dilating cannulae and various instruments, the systems allow the surgeon to access the anatomy through a percutaneous approach and safely deliver commercially available bone cement under low, controlled pressure. The CDV™ Delivery System offers the ability to biopsy before delivery.

Spine Fusion Stimulation Systems. Spinal fusions are surgical procedures undertaken to establish bony union between adjacent vertebrae. We distribute both non-invasive and implantable electrical stimulation devices that surgeons can use as options to provide an appropriate adjunct to surgical intervention in the treatment of spinal fusion applications. We have assembled extensive preclinical research, documenting the mechanism of action for the technology utilized in our spine fusion stimulation systems.

The SpinalPak® II Spine Fusion Stimulator and Biomet® SpinalPak® Non-Invasive Spine Fusion Stimulator System are non-invasive bone growth stimulators for use as an adjunct electrical treatment to primary lumbar spinal fusion surgery for one or two levels. Both utilize Capacitive Coupling technology that involves the upregulation of factors that modulate bone healing, which may lead to successful fusion incorporation. These devices consist of a small, lightweight generator worn outside the body that is connected to wafer-thin electrodes applied over the fusion site. Both devices are patient-friendly and are designed to optimize compliance with the treatment regimen to help fusion success.

The SpF® Implantable Spinal Fusion Stimulator is an established clinical treatment for posterolateral lumbar spine fusions and it is the only implantable spine fusion stimulator on the market, providing a constant dose of electrical stimulation for up to six months. The surgically-implanted SpF® Implantable Spinal Fusion Stimulator consists of a generator that provides a constant direct current to titanium cathodes placed where bone growth is needed. The SpF® Implantable Spinal Fusion Stimulator is a Class III device and is indicated as a spinal fusion adjunct that increases the

probability of fusion success in one or two levels or three or more levels.

15

---

## Table of Contents

Osteobiologics. The InterGro® DBM (Demineralized Bone Matrix) portfolio includes InterGro® DBM Paste, InterGro® DBM Putty and InterGro® DBM Plus, each providing an osteoconductive and osteoinductive matrix that may be used as an autograft extender in the spine. All InterGro® DBM forms contain human tissue or allograft bone, which has been granulated, demineralized and mixed with lecithin, a natural lipid carrier that is resistant to breakdown by bodily fluids, temperature or aggressive irrigation. InterGro® DBM has the highest DBM content by weight with validated osteoinductivity, and excellent handling and performance characteristics. InterGro® DBM Plus contains InterGro® DBM Paste pre-mixed with Pro Osteon® 500R granules, which provide an osteoconductive scaffold that resorbs in 6-18 months and an interconnected porosity that is similar to cancellous bone that provides continuous pathways for bony ingrowth.

Pro Osteon® 500R and Pro Osteon® 200R are resorbable, biocompatible, and osteoconductive bone graft substitutes made from marine coral, which has a distinct chemical composition and exhibits fully interconnected porosity. The unique pore structure in Pro Osteon® 500R provides continuous pathways for bony ingrowth that are similar to human cancellous bone. The architecture and chemical composition in Pro Osteon® 200R is similar to human bi-cortical bone. Both are a resorbable combination of hydroxyapatite and calcium carbonate that is intended to be replaced with natural bone during the healing process. Pro Osteon® 500R is available in granules and blocks, whereas Pro Osteon® 200R is available in granules.

The Indux™ Cortical Strip, machined from a single piece of human cortical bone, is fully demineralized for optimal osteoinductivity. The design allows for increased osteoinductivity, when compared to demineralized cancellous bone, and its unique cross-hatched texture creates a structure that provides both strength and flexibility. The Indux™ Cortical Strip may be rehydrated with blood, bone marrow aspirate (BMA) or saline solution and then shaped to fit a void or placed in the gutters of the posterolateral spine with local bone, DBM, and/or a bone graft substitute. Rehydration with BMA allows for the introduction of osteogenic cells and completion of the bone growth triad.

The Indux™ Cancellous Strip and Sponge are machined from human cancellous bone that is fully demineralized to expose the inherent growth factors and bone morphogenetic proteins that are essential for new bone formation (osteoinductive). The Indux™ Cancellous Strip and Sponge maintain the natural interconnected porosity of cancellous bone providing an ideal scaffold for cellular infiltration and bone formation (osteoconductive). The Indux™ Cancellous Strip and Sponge are available in various shapes and sizes for multiple applications. In addition, they may be rehydrated with blood, bone marrow aspirate (BMA) or saline solution, and they expand to fill the contours of any void, thereby minimizing the space between the graft and the host bone. Rehydration with BMA allows for the introduction of osteogenic cells and completion of the bone growth triad.

PlatFORM™ CM Blocks, PlatFORM™ CM Strips, PlatFORM™ CM Pads and PlatFORM™ Putty are collagen mineral composite matrices processed into block, strip, pad and puttyform, respectively, for surgical implantation. The principal components of PlatFORM™ CM products are bovine type I collagen and anorganic bovine bone mineral. The mineral particles are dispersed within collagen fibers forming a three-dimensional open porous matrix consisting of bone mineral and collagen. PlatFORM™ CM products are provided as a sterile, dry material that is hydrated with autogenous bone marrow at the point of use. PlatFORM™ CM products are fully resorbed during the natural process of bone formation and remodeling.

Cellentra™ VCBM offers viable osteogenic cells, verified osteoinductivity, and an osteoconductive scaffold and contains at least 250,000 viable cells per cc, including mesenchymal stem cells (MSCs), osteoprogenitor cells and pre osteoblasts. The demineralized component of Cellentra™ VCBM provides additional inherent growth factors, including BMP 2, 4, 7, VEGF, TGF  $\beta$ , PDGF, IGF 1 and FGF. Additionally, the cancellous bone matrix of Cellentra™ VCBM offers an interconnected trabecular structure for optimal osteoconductiveity.

Traditional allografts, derived from donated human tissue, are used in a number of different applications and are available in a variety of forms, including cross-sections, iliac crest wedges, cortical and cancellous chips, granules, and powder. The advantages of traditional allografts include elimination of the need for a second procedure to harvest graft material and, thus, minimization of operating time; minimization of pain, complications, and morbidity; lower supply restrictions than autograft; and availability in various shapes and forms to suit specific anatomical indications. Precision Machined Allograft Services. Many spinal procedures, in both the lumbar and cervical spine, involve spinal fusion. Surgeons often utilize precision machined allograft spacers to fuse the interbody space. We provide services



related to the OsteoStim® Cervical Allograft Spacer for anterior cervical interbody fusions, the

16

---

## Table of Contents

OsteoStim® ALIF Allograft Spacer for anterior lumbar interbody fusions and the OsteoStim® PLIF Allograft Spacer for posterior lumbar interbody fusions, depending on the surgical approach. 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. In order to address the cervical artificial disc opportunity, we are investigating next-generation designs utilizing innovative materials and geometries.

Electrical Stimulation Systems (for use within the appendicular system). Bone growth stimulation is a method of delivering a low level electrical current or ultrasound to a nonunion fracture site to promote bone growth.

The Biomet® EBI Bone Healing System is indicated for the treatment of nonunion fractures, failed fusions and congenital pseudarthrosis in the appendicular system. A nonunion is considered to be established when there are no visible progressive signs of healing. The Biomet® EBI Bone Healing System utilizes Pulsed Electromagnetic Fields (PEMF) for the treatment of fracture nonunions. Treatment is delivered through an anatomically configured therapeutic treatment coil.

The OrthoPak® 2 Bone Growth Stimulator System is indicated for the treatment of an established nonunion acquired secondary to trauma, excluding vertebrae and all flat bones, where the width of the nonunion defect is less than one-half the width of the bone to be treated. The OrthoPak® 2 Bone Growth Stimulator System utilizes capacitive coupling technology, which involves the upregulation of growth factors that modulate bone healing. The device consists of a small, lightweight generator worn outside the body that is connected to wafer-thin electrodes applied over the nonunion site.

### Dental Reconstructive Devices

In our Dental Reconstructive business we develop, manufacture and market products designed to enhance oral rehabilitation through the replacement of teeth and the repair of hard and soft tissues. These products include dental reconstructive devices and related instrumentation, bone substitute materials, regenerative products and materials, as well as crowns and bridges. A dental implant is a small screw, normally constructed of titanium or titanium alloy, which is surgically placed in the bone of the jaw to replace the root of a missing tooth and to provide an anchor for an artificial tooth.

Our historical flagship implant system, the OSSEOTITE® product line, features a micro-roughened surface technology, which allows for early/immediate loading and improved bone integration to the surface of the implant as compared to machined surfaced implants. In fiscal year 2007, we further enhanced implant surface technology with the introduction of the NanoTite™ Implant. The surface features the application of nanometer scale crystals of calcium phosphate to the existing OSSEOTITE® surface. Both NanoTite™ and OSSEOTITE® Implants are available in the Certain® Implant configuration, an internal connection system that provides audible and tactile feedback when restorative abutments and ancillary components are seated into the implant while also offering flexibility in placing the implant when pre-angled abutments are used. All Certain® PREVAIL® Implants incorporate integrated platform switching which is designed for crestal bone preservation.

Launched in fiscal year 2011, the OSSEOTITE® 2 Implant is an enhancement to the legacy OSSEOTITE® Implant. With more surface area in direct contact with the osteotomy wall, this implant is designed for greater bone-to-implant contact for primary stability, an important clinical consideration when pursuing more challenging surgical protocols such as immediate loading or immediate extraction and placement cases. Also in fiscal year 2011, the Tapered Certain® Implant manufactured from commercially pure titanium was introduced. Complementing the titanium alloy Tapered Certain® Implant, the commercially pure titanium tapered implant line extension is intended for markets where there is a strong preference for implant systems made from this material.

In early 2013, 3i brought a new generation of dental implant to market. The 3i T3® Implant is a synergy of multiple technologies designed to deliver sustainable aesthetics through tissue preservation. The three key design features and benefits include (1) a contemporary hybrid surface for osseointegration, (2) integrated platform switching for crestal bone preservation and (3) seal integrity to reduce implant micromotion and leakage. This combination of the best in 3i innovation is intended to help clinicians address their clinical challenges and deliver upon patient expectations for sustainable aesthetic outcomes.

In the site preparation category of the dental product portfolio, we offer our Navigator® Instrumentation for guided surgery, including guided instrumentation for use with our Tapered Implant line. This open architecture

## Table of Contents

instrumentation is designed to interface with the software and surgical guide solutions offered by existing entities in the marketplace. As planning and guide fabrication are based upon computed tomography scans, this may result in more accurate implant placement when combined with the depth and rotational control offered by our instrumentation. As implant placement position can be replicated as planned, this may also provide the opportunity for fabrication of a provisional prosthesis in advance of surgery, thereby allowing for a complete implant restoration in one patient visit. On the regenerative side of the site preparation portfolio, we have continued to expand and improve our comprehensive bone grafting product and service offering. The portfolio now offers a variety of grafting materials (i.e., allografts, allograft putties, xenografts, and synthetics) and resorbable collagen membranes, including the OsseoGuard<sup>®</sup> Membrane and OsseoGuard Flex<sup>®</sup> Membrane. We provide two granule sizes (500-1000 and 1000-2000µm) for Endobon<sup>®</sup> Xenograft Granules. This variety in particle sizes makes Endobon<sup>®</sup> Xenograft Granules suitable for a range of procedures from small cases like periapical defects to larger regenerative cases such as sinus augmentation procedures. In fiscal year 2013, we released RegenerOss<sup>®</sup> Putty Plus, a demineralized bone matrix which also contains mineralized cancellous bone chips for osteoconductivity. Also, in fiscal year 2013, a distribution agreement was signed with Innocoll, Inc. for the global distribution rights of a line of collagen-based oral wound care products.

In our restorative portfolio, we launched the DIEM<sup>®</sup> 2 treatment protocol utilizing the Low Profile Abutment system for screw-retained restorations in fiscal year 2012. This treatment protocol is targeted to patients requiring a full mouth reconstruction with immediate loading techniques that provide them with teeth the day of surgery. In addition to this, the Smile Today<sup>™</sup> Patient Marketing Program was launched in fiscal year 2013. This program is designed to enable clinicians to increase patient awareness of their ability to restore smiles in as little as one day with DIEM<sup>®</sup>2. This exciting program offers turnkey marketing tools that clinicians can use to educate their patients on the benefits of immediate full arch restoration.

Within Digital Dentistry, we offer our BellaTek<sup>®</sup> Encode<sup>®</sup> Impression System patient-specific abutment technology. This technology is an enhancement of the baseline BellaTek<sup>®</sup> Abutment offering, allowing us to fabricate an abutment and orient implant body analogs into the proper position in a stone master model. This can enable the complete fabrication of a restoration from one supragingival impression, which is significantly easier than present techniques and a potential opportunity for more general dentists to become involved in implant therapy. The quality of these abutments and the ability to save significant chair time are also potential benefits to experienced restorative dentists. The material choice for BellaTek<sup>®</sup> Abutment fabrication also includes Zirconia options for the fabrication of aesthetic, all-ceramic restorations. Also offered are BellaTek<sup>®</sup> Bars manufactured in titanium and Copings and Frameworks manufactured in zirconia.

### Other Products

We also manufacture and distribute numerous other products, including craniomaxillofacial fixation devices, cardiothoracic fixation devices, autologous therapy products and services, operating room supplies, casting materials, general surgical instruments, wound care products and other surgical products. Our craniomaxillofacial fixation and cardiothoracic products are marketed by our subsidiary, Biomet Microfixation, LLC, or Biomet Microfixation.

Neurosurgical solutions: We offer products used in cranial reconstructive and cranial closure procedures. We focus on providing a complete product offering for complex cases and products for standardized procedures. Products include the HTR-PEKK Patient-Matched Implant, HTR<sup>®</sup>-PMI Hard Tissue Replacement implants for severe cranial defects and the iQ<sup>®</sup> Intelligent System for faster screw delivery.

Craniomaxillofacial solutions: We offer plating systems for reconstruction of the face and skull due to tumor and trauma procedures. These products are used by oral surgeons, reconstructive plastic surgeons, and ear, nose and throat surgeons. Products include the TraumaOne<sup>™</sup> Plating System, CMF System for Orthognathic Surgery, a Total Mandibular Joint Replacement System and Lactosorb<sup>®</sup> Resorbable Fixation Systems.

Cardiothoracic solutions: We offer devices for sternal closure and chest wall reconstruction. Products include the SternaLock<sup>®</sup> Blu System and the Pectus Bar.

SternaLock<sup>®</sup> Blu is our primary sternal closure system. Cardiothoracic surgeons use our implants to close the sternum after a midline sternotomy or a mini-sternotomy. The system also offers a plating solution for a mini-thoracotomy.



## Table of Contents

The Pectus Bar is an implant used to correct pectus excavatum, a chest wall deformity. Biomet Microfixation owns the patent for this product, which is commonly used during the Nuss Procedure.

**Autologous Therapy Products and Services.** We manufacture and market a line of autologous therapy products through our subsidiary, Biomet Biologics, LLC, or Biomet Biologics, including autologous blood processing disposables. Our portfolio is comprised of core technologies including the GPS® III System, the Plasmax® Plasma Concentration System, the BioCUE™ Platelet Concentration System and the Clotaly® Activation Solution System. The GPS® III System is a device that collects platelet concentrate from a small volume of the patient's blood using a rapid, single centrifuge cycle process. The GPS® III System is designed to recover a high percentage of the available platelets from the initial blood input to the device.

### **Product Development**

Our research and development efforts are essentially divided into two categories: core business development and emerging technologies. Our core business development is primarily focused on evolutionary product enhancements by our product engineering teams in various facilities around the globe. Emerging technologies development efforts are focused on new biomaterial products and autologous therapies expanding into new market spaces and/or new applications of existing technologies. The global product organizations coordinate priorities, resources and project execution with the commercial and functional teams.

We continue to aggressively conduct internal research and development efforts to generate new marketable products, technologies and materials. In addition, we believe we are well positioned to take advantage of external acquisition and development opportunities. An important component of our strategy has been the formation of strategic alliances to enhance the development of new musculoskeletal products.

For the fiscal years 2013, 2012 and 2011, we invested \$150.3 million, \$126.8 million and \$119.4 million, respectively, on research and development. We expect that our research and development investments will continue to increase.

Our research and development expenses primarily related to our product development and clinical investments in both our core businesses as well as targeted emerging technologies.

### **Patents and Trademarks**

We believe that patents and other intellectual property will continue to be of importance in the musculoskeletal industry. Accordingly, we continue to protect technology developed internally and to acquire intellectual property rights associated with technology developed externally. We enforce our intellectual property rights consistent with our strategic business objectives. We do not believe that we have any single patent or license (or series of patents or licenses) which is material to our operations, consolidated revenues or earnings. We are not aware of any single patent that, if lost or invalidated, would be material to our consolidated revenues or earnings. We currently have more than 2,100 patents and in excess of 950 pending patent applications.

BIOMET is our principal registered trademark throughout the world, and registrations have been obtained or are in process with respect to various other trademarks associated with our products. Unless otherwise noted in this annual report, all trademarks contained herein are owned by Biomet, Inc., or one of its subsidiaries.

### **Government Regulation**

Most aspects of our business are subject to some degree of government regulation in the countries in which our operations are conducted. It has always been our practice to comply with the regulatory requirements governing our products and operations and to conduct our affairs in an ethical manner. This practice is reflected in our Code of Business Conduct and Ethics, various other compliance policies and through the responsibility of the Audit Committee of the Board of Directors to review our systems of internal control, our process for monitoring compliance with laws and regulations and our process for monitoring compliance with our Code of Business Conduct and Ethics. For some products, and in some areas of the world such as the United States, Canada, Japan and Europe, government regulation is significant and, in general, there appears to be a trend toward more stringent regulation throughout the world, as well as global harmonization of various regulatory requirements. We devote significant time, effort and expense to addressing the extensive government and regulatory requirements applicable to our 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.



## Table of Contents

We believe that we are no more or less adversely affected by existing government regulations than are our 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, the FDA Amendments Act of 2007, the FDA Safety and Innovation Act of 2012, 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.

Most of our new device products require the submission of a Premarket Notification, commonly referred to as a 510(k), to the FDA prior to our marketing the product. This process requires us to demonstrate that the device is at least as safe and effective as, or “substantially equivalent” to, a legally marketed device before we can receive notice from the FDA finding substantial equivalence and clearing the new device for commercial distribution in the United States. On July 29, 2011, the Institute of Medicine (IoM) published a report of its review of the 510(k) clearance program to FDA. The IoM report recommended that the FDA pursue a legislative change from the current 510(k) process to an integrated premarket and post-market regulatory framework. It is uncertain if these recommendations will ultimately be pursued. If they are pursued, it is possible we will be required to submit additional clinical and manufacturing information with respect to premarket applications in the future, resulting in increased costs and increased delay in introducing products to the market. Other devices we develop and market fall into a class of products for which the FDA has implemented stringent clinical investigation and Premarket Approval, or PMA, requirements. The PMA process requires us to provide clinical and laboratory data that establishes that the new medical device is safe and effective. The FDA will approve the new device for commercial distribution if it determines that the data and information in the PMA relating to design, materials, bench and animal testing and human clinical data constitute valid scientific evidence and that there is reasonable assurance that the device is safe and effective for its intended use.

There are also various federal healthcare laws that apply when we or customers submit claims for items or services that are reimbursed under Medicare, Medicaid or other federally-funded healthcare programs, including among others: (1) the Anti-Kickback Statute which prohibits offers to pay or receive remuneration of any kind for the purpose of inducing or rewarding referrals of items or services reimbursable by a Federal healthcare program; (2) the False Claims Act, which prohibits the submission of false or otherwise improper claims for payment to a federally-funded health care program; and (3) the Stark law, which prohibits physicians from referring Medicare or Medicaid patients to a provider that bills these programs for the provision of certain designated health services if the physician (or a member of the physician’s immediate family) has a financial relationship with that provider. There are often similar state false claims, anti-kickback and anti-self referral and insurance laws that apply to state-funded Medicaid and other healthcare programs and private third-party payors.

We are subject to various federal and foreign laws that govern our international business practices, particularly with respect to payments to government officials. The U.S. Foreign Corrupt Practices Act, or FCPA, has been used with some frequency to prosecute companies in the United States. The FCPA prohibits U.S. companies and their officers, directors, employees, shareholders acting on their behalf and agents from offering, promising, authorizing or making payments to foreign officials for the purpose of obtaining or retaining business abroad or otherwise obtaining favorable treatment and this law requires companies to maintain records which fairly and accurately reflect transactions and to maintain internal accounting controls. In many countries, hospitals and clinics are government-owned and healthcare professionals employed by such hospitals and clinics, with whom we regularly interact, may meet the definition of a foreign official for purposes of the FCPA. Refer to “Note 16—Contingencies” under Part II, Item 8 of this report for a description of the outcome of the FCPA investigation of the Company by the SEC and DOJ. On July 1, 2011, the U.K. Bribery Act 2010 became effective, which prohibits active and passive bribery, including commercial bribery, and bribery of a foreign public official for a business purpose. The Act also imposes attribution liability on companies that fail to prevent “associated persons” from committing acts of bribery and includes far-reaching jurisdiction for prosecution.



We are also subject to various federal, state and foreign laws that protect the confidentiality of certain patient health information, including patient medical records, and restrict the use and disclosure of patient health information by healthcare providers. In April 2003, the U.S. Department of Health and Human Services (HHS) published patient privacy rules under the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and, in April 2005, published security rules for protected health information. The HIPAA privacy and security rules govern the use, disclosure and security of protected health information by “Covered Entities,” which include, among

Table of Contents

others, healthcare providers that submit electronic claims and health plans. In 2009, Congress passed the HITECH Act, which modified certain provisions of the HIPAA privacy and security rules for Covered Entities and their Business Associates, which is anyone that performs a service on behalf of a Covered Entity involving the use or disclosure of protected health information and is not a member of the covered entity's workforce. Among other things, the HITECH Act provided that Business Associates will now be subject to the same security requirements as Covered Entities, and that with regard to both the security and privacy rule, Business Associates will be subject to direct enforcement by HHS, including civil and criminal liability, just as Covered Entities are. In the past, HIPAA has generally affected us indirectly.

Neither Biomet, Inc. nor LVB is generally a Covered Entity under HIPAA, except for our non-invasive bone growth stimulation business and our health insurance plans. We only operate as a Business Associate to Covered Entities in a limited number of instances. In those cases, the patient data that we receive and analyze may include protected health information. We are committed to maintaining the security and privacy of patients' health information and believe that we meet the expectations of the HIPAA rules. Some modifications to our systems and policies may be necessary to address requirements for recently enacted state privacy laws, but we believe we have laid the necessary framework for such changes. We believe the ongoing costs and impacts of assuring compliance with the HIPAA privacy and security rules are not material to our business.

We believe that we are well positioned to face the changing international regulatory environment. The International Standards Organization, or the ISO, has an internationally recognized set of standards aimed at ensuring the design and manufacture of quality products. A company that has passed ISO audits and obtained ISO certification applicable to its activity sector is internationally recognized as having quality manufacturing processes. The European Union (EU) 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 our products. Each of our principal manufacturing facilities has been certified to ISO 13485:2003. Our products sold in Europe bear the CE mark to the extent required by European law and regulations.

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. We are 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. Other factors affecting a specific hospital's reimbursement rate include the size of the hospital, its teaching status and its geographic location.

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

**Sales and Marketing**

We have diligently worked to attract and retain qualified, well-trained and motivated sales representatives. The breadth of our product offering and the quality of our sales forces collaborate to create synergies that we believe uniquely position us to continue to efficiently penetrate the musculoskeletal market. In the United States, our products are marketed by a combination of independent third-party distributors, independent commissioned sales agents and direct sales representatives, primarily based on the specific product group being represented and the market characteristics of specific geographies. In Europe, our products are promoted by sales representatives employed by subsidiaries, independent third-party distributors, and some independent commissioned sales agents, based primarily on the geographic location. In the rest of the world, we maintain direct selling organizations, as well as independent

commissioned sales agents and independent third-party distributors in other key markets. In aggregate, our products are marketed by more than 3,000 sales representatives throughout the world.

Table of Contents

Seasonality

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

Customers

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

Inventory and Trade Accounts Receivable

We have inventory located throughout the world with our customers, our distributors and direct salespersons for their use in marketing our products and in filling customer orders. As of May 31, 2013, inventory of approximately \$371.7 million was located with these distributors, salespersons and customers. We maintain trade accounts receivable balances based on credit terms that are generally consistent with industry and local market practices.

Distribution

We operate distribution facilities domestically in Warsaw, Indiana; Palm Beach Gardens, Florida; Jacksonville, Florida and Braintree, Massachusetts, and internationally in Hazeldonk, The Netherlands; Valencia, Spain; Tokyo, Japan; Seoul, South Korea; and North Ryde, Australia. We generally ship our orders via expedited courier service. Our backlog of firm orders is not considered material to understanding our business.

Competition

Our business is highly competitive. 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. Major competitors in our five product categories are set forth below by market category.

Large Joint Reconstructive Products

Our large joint orthopedic reconstructive devices compete primarily with those offered by DePuy Synthes (a Johnson & Johnson company), Smith & Nephew plc, Stryker Orthopaedics (a division of Stryker Corp.) and Zimmer, Inc. (a subsidiary of Zimmer Holdings, Inc.). Management believes these four companies, together with Biomet, have the predominant share of the global large joint orthopedic reconstructive device market. We believe our prices for large joint orthopedic reconstructive devices are competitive with those in the industry. We believe our future success will depend upon, among other things, our service and responsiveness to our distributors and orthopedic specialists, the continued strong clinical results of our products, and upon our ability to design and market innovative and technologically-advanced products that meet the needs of the marketplace.

S.E.T. Devices

Our sports medicine products compete primarily in the areas of procedure-specific implants and instruments, manual instruments and power instruments. Our principal 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.

Our extremity devices primarily compete with those offered by DePuy Synthes (a Johnson & Johnson company), Tornier, Inc., Zimmer, Inc. (a subsidiary of Zimmer Holdings, Inc.), Wright Medical, Exactech and Stryker Orthopaedics (a division of Stryker Corp.)

Our internal and external fixation devices compete with other such devices primarily on the basis of price, ease of application and clinical results. Our internal fixation product lines compete principally with those of DePuy Synthes (a Johnson & Johnson company), Zimmer, Inc. (a subsidiary of Zimmer Holdings, Inc.), Smith & Nephew plc and Stryker Trauma (a division of Stryker Corp.). The principal competitors in the external fixation market are

## Table of Contents

Smith & Nephew plc, Stryker Trauma (a division of Stryker Corp.), DePuy Synthes (a Johnson & Johnson Company), Zimmer, Inc. (a subsidiary of Zimmer Holdings, Inc.) and Orthofix, Inc. (a subsidiary of Orthofix International N.V.).  
Spine and Bone Healing Products

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

Our osteobiologic products compete with other osteobiologics primarily on the basis of breadth of product line, product recognition and price. The principal competitors in osteobiologics are Medtronic Sofamor Danek, Inc. (a subsidiary of Medtronic, Inc.), DePuy Synthes (a Johnson & Johnson Company), Stryker Spine (a division of Stryker Corp.), Zimmer Spine (a subsidiary of Zimmer Holdings, Inc.) and others.

Our electrical stimulation devices primarily compete with those offered by Orthofix, Inc. (a subsidiary of Orthofix International N.V.), DJO, Inc. (formerly ReAble Therapeutics, 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.

### Dental Reconstructive Devices

Our dental reconstructive devices 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, DENTSPLY International, Inc., and Zimmer Dental (a subsidiary of Zimmer Holdings, Inc.).

### Other Products

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

### Raw Materials and Supplies

Our suppliers are a critical element of Biomet's supply chain. We have established strategic partnerships with key suppliers. This has enabled us to leverage our buying power, establish vendor managed inventory arrangements, enhance product innovation and reduce our risk. Long-term contracts allow us to develop mutually advantageous relationships with our suppliers by providing them with more visibility into our future demand and new product needs. Our Sales, Inventory and Operations Planning ("SIOP") process balances our inventory position and supply capacity with our forward looking sales plan through a reconciliation process. On a monthly basis, our SIOP process in each business unit reviews demand, supply, and inventory, and identifies potential future capacity or material gaps so that the proper corrective actions can be put in place.

The raw materials used in the manufacture of our orthopedic large joint reconstructive, S.E.T., spine & bone healing and dental devices are principally nonferrous metallic alloys, stainless steel and polyethylene powder. With a few exceptions, none of our raw material requirements are limited to any material extent by critical supply or single origins. The demand for certain raw materials used by us, 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, we could experience complications in obtaining these raw materials.

Based on our current relationship with our suppliers, we do not anticipate a material shortage in the foreseeable future. Further, we believe that our inventory of raw materials is sufficient to meet any short-term supply shortages of metallic alloys. The results of our operations are not materially dependent on raw material costs.

Safety stock levels of critical materials are reviewed on a quarterly basis to ensure these stocks are appropriately set. Factors that determine these stock levels include future usage estimates, lead times, forecast accuracy, commodity pricing trends, worldwide market conditions and risk mitigation. In the case of single sourced

Table of Contents

materials, stock levels are established taking into account potential disruption to supply and, where practical, back-up supply points are identified for contingency.

Environmental Matters

We are subject to various federal, state and local laws and regulations regulating the discharge of materials into the environment and otherwise relating to the protection of the environment. We do not believe that we will be required to spend any material amounts in order to comply with these laws and regulations or that compliance with such laws and regulations will materially affect our capital expenditures, results of operations, financial condition or cash flows.

Employees

As of May 31, 2013, our domestic operations (including Puerto Rico) employed 3,622 persons, of whom 1,666 were engaged in production and 1,956 in research and development, sales, marketing, administrative and clerical efforts. Our international subsidiaries employed 4,808 persons, of whom 2,527 were engaged in production and 2,281 in research and development, sales, marketing, administrative and clerical efforts. None of our principal domestic manufacturing employees are represented by a labor union. The production employees at our Bridgend, South Wales facility are organized. Employees working at the facilities in Berlin, Germany; Valence, France; Swindon, United Kingdom and Valencia, Spain are represented by Workers' Councils. We believe that our relationship with our employees is satisfactory.

The establishment of our 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 our products. Our European manufacturing locations in South Wales, England, France, Spain, Switzerland and Germany also provide good sources for skilled manufacturing labor. Our Puerto Rican operations principally involve the assembly of purchased components into finished products using a skilled labor force. Our manufacturing operations in Jinhua, Zhejiang Province, and Changzhou, Jiangsu Province, China are growing and currently include approximately 890 persons who are included in the numbers above.

Available Information

Our reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available free of charge in, or may be accessed through, the "Investors" section of our website at [www.biomet.com](http://www.biomet.com) as soon as reasonably practicable after we file or furnish such material with or to the Securities and Exchange Commission, or the SEC. Any materials we file with the SEC are also available to the public at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. In addition, copies of these reports will be made available free of charge, upon written request to our Investor Relations Department at 56 East Bell Drive, Warsaw, IN 46582.

The information on Biomet's website is not included as part of, nor incorporated by reference into, this Annual Report on Form 10-K except to the extent such information is separately set forth herein.

Table of Contents

Item 1A. Risk Factors.

The following factors, among others, could cause our future results to differ from those contained in forward-looking statements made in this annual report and presented elsewhere by management from time to time. Such factors, among others, may have a material adverse effect on our business, financial condition, results of operations and cash flows. The risks identified in this section are not exhaustive. We operate in a dynamic and competitive environment. New risk factors affecting us 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 our 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. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business or results of operations in the future. In addition, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The following discussion of our risk factors speaks only as of the date on which they were made and should be read in conjunction with the consolidated financial statements and related notes included herein. Because of these and other factors, past financial performance should not be considered an indication of future performance. Any of the following risks could materially adversely affect our business, financial condition, results of operations or cash flows.

Risks Related to Our Business

Our future profitability depends on the success of our principal product lines.

Sales of our large joint reconstructive products accounted for approximately 56%, 60% and 60% of our net sales for each of the three fiscal years ended May 31, 2013, 2012 and 2011, respectively. We expect sales of reconstructive products to continue to account for a significant portion of our aggregate sales. Any event adversely affecting the sale of reconstructive products may, as a result, adversely affect our business, financial condition, results of operations and cash flows.

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

The market for our products is highly competitive and dominated by a small number of large companies. We are continually engaged in product development, research and improvement efforts. New products and line extensions of existing products represent a significant component of our growth rate. Our ability to continue to grow sales effectively depends on our capacity to keep up with existing or new products and technologies in the musculoskeletal products market. The process of obtaining regulatory approvals to market a medical device, particularly from the FDA and certain foreign governmental authorities, can be costly and time consuming and approvals and clearances might not be granted for future products on a timely basis, if at all. On July 29, 2011, the Institute of Medicine (“IoM”) published a report of its review of the 510(k) clearance program to FDA. The IoM report recommended that the FDA pursue a legislative change from the current 510(k) process to an integrated premarket and post-market regulatory framework. It is uncertain if these recommendations will ultimately be pursued. If they are pursued, it is possible we will be required to submit additional clinical and manufacturing information with respect to premarket applications in the future, resulting in increased costs and increased delay in introducing products to the market.

Other devices we develop and market fall into a class of products for which the FDA has implemented stringent clinical investigation and Premarket Approval (“PMA”) requirements. The PMA process requires us to provide clinical and laboratory data that establishes that the new medical device is safe and effective. The FDA will approve the new device for commercial distribution if it determines that the data and information in the PMA relating to design, materials, bench and animal testing and human clinical data constitute valid scientific evidence and that there is reasonable assurance that the device is safe and effective for its intended use. In addition, if our competitors’ new products and technologies reach the market before our products, they may gain a competitive advantage or render our products obsolete.

The ultimate success of our product development efforts will depend on many factors, including, but not limited to, our 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





Table of Contents

products and instrumentation in sufficient volumes on time. Moreover, research and development efforts may require a substantial investment of time and resources before we are adequately able to determine the commercial viability of a new product, technology, material or other innovation. Even in the event that we are 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 our competitors of products embodying new technologies or features.

In addition to the impact of the 2.3% excise tax on our results of operations beginning January 1, 2013 following enactment of the Patient Protection and Affordable Health Care Act (H.R. 3590), our business, financial condition, results of operations and cash flows could be significantly and adversely affected if this legislation ultimately results in lower reimbursements for our products or reduced medical procedure volumes or if certain other types of healthcare reform programs are adopted in our key markets.

In the United States, healthcare providers that purchase our products (e.g., hospitals, physicians, dentists and other healthcare 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 products on a profitable basis, thereby 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 March 2010, the U.S. Congress adopted and President Obama signed into law comprehensive healthcare reform legislation through the passage of the Patient Protection and Affordable Health Care Act (H.R. 3590) and the Healthcare and Education Reconciliation Act (H.R. 4872). Among other initiatives, these bills impose a 2.3% excise tax on domestic sales of medical devices following December 31, 2012, which is estimated to contribute approximately \$20 billion to healthcare reform. The law was upheld by a Supreme Court decision that was announced on June 28, 2012. Various healthcare reform proposals have also emerged at the state level. Outside of the excise tax, which has impacted our results of operations following December 31, 2012, we cannot predict with certainty what healthcare initiatives, if any, will be implemented at the state level, or what the ultimate effect of federal healthcare reform or any future legislation or regulation will have on us. However, an expansion in government's role in the U.S. healthcare industry may lower reimbursements for our products, reduce medical procedure volumes and adversely affect our business and results of operations, possibly materially.

Outside of the United States, reimbursement systems vary significantly from country to country. In the majority of the international markets in which our 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 our products may decline. Many foreign markets, including Canada, and some European and Asian countries, have tightened reimbursement rates. Our ability to continue to sell certain products profitably in these markets may diminish if the government-managed healthcare systems continue to reduce reimbursement rates.

Our business, financial condition, results of operations and cash flows could be significantly and negatively affected by substantial government regulations.

Our products 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 worldwide, and we do not anticipate this trend to dissipate in the near future.

In general, the development, testing, manufacturing and marketing of our 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, we are 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 and regulations governing Medicare and Medicaid reimbursement

and healthcare fraud and abuse laws, with these laws and regulations being 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

Table of Contents

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 us can result in various actions that could adversely impact our 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 suspension of shipments from particular manufacturing facilities;
- the imposition of fines and penalties;
- the delay of our ability to introduce new products into the market;
- the exclusion of our products from being reimbursed by federal and state healthcare 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 us.

Any of these actions, in combination or alone, or even a public announcement that we are being investigated for possible violations of these laws, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In many of the foreign countries in which we market our products, we are 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 our 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 our 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 our business, financial condition, results of operations and cash flows.

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

Certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act currently or in the future will require us to report on “conflict minerals” used in our products and the due diligence plan we put in place to track whether such minerals originate from the Democratic Republic of Congo and adjoining countries. The implementation of these requirements could affect the sourcing and availability of minerals used in certain of our products.

We, like other companies in the orthopedic industry, are involved in ongoing governmental investigations, the results of which may adversely impact our business and results of operations.

In June 2013, we received a subpoena from the U.S. Attorney's Office for the District of New Jersey requesting various documents relating to the fitting of custom-fabricated or custom-fitted orthoses, or bracing, to patients in New Jersey, Texas and Washington. We are currently in the process of evaluating the scope of the subpoena and intend to fully cooperate with the request of the U.S. Attorney's Office. We can make no assurances as to the time or resources that will be needed to devote to this inquiry or its final outcome.

In September 2010, we received a Civil Investigative Demand (“CID”) issued by the U.S. Department of Justice Civil Division pursuant to the False Claims Act. The CID requests that we provide documents and testimony

Table of Contents

related to allegations that we and OtisMed Corp. and Stryker Corp. have violated the False Claims Act relating to the marketing of, and payment submissions for, OtisMed's OtisKnee™ (a registered trademark of Otis Med) knee replacement system. We have produced responsive documents and are fully cooperating in the investigation. We can make no assurances as to the time or resources that will be needed to devote to this inquiry or its final outcome.

In February 2010, we received a subpoena from the Office of the Inspector General of the U.S. Department of Health and Human Services requesting various documents relating to agreements or arrangements between physicians and our Interpore Cross subsidiary for the period from 1999 through the present and the marketing and sales activities associated with Interpore Cross' spinal products. We are cooperating with the request of the Office of the Inspector General. We can make no assurances as to the time or resources that will be needed to devote to this inquiry or its final outcome.

In April 2009, we received an administrative subpoena from the U.S. Attorney's Office for the District of Massachusetts requesting various documents relating primarily to the Medicare reimbursement of and certain business practices related to our EBI subsidiary's non-invasive bone growth stimulators. It is our understanding that competitors in the non-invasive bone growth stimulation market received similar subpoenas. We received subsequent subpoenas in connection with the investigation in September 2009, June 2010 and February 2011 along with several informal requests for information. We are producing responsive documents and are fully cooperating in the investigation. We can make no assurances as to the time or resources that will be needed to devote to this investigation or its final outcome.

In April 2009, we became aware of a qui tam complaint alleging violations of the federal and various state False Claims Acts filed in the United States District Court for the District of Massachusetts, where it is currently pending. Biomet, LVB and several of our competitors in the non-invasive bone growth stimulation market were named as defendants in this action. The allegations in the complaint are similar in nature to certain categories of requested documents in the above-referenced administrative subpoenas. The U.S. government has not intervened in the action. We are vigorously defending this matter and intend to continue to do so. We can make no assurances as to the time or resources that will be needed to devote to this investigation or its final outcome.

On September 25, 2007, we received a letter from the SEC informing us that it was conducting an informal investigation regarding possible violations of the Foreign Corrupt Practices Act ("FCPA"), in the sale of medical devices in certain foreign countries by companies in the medical devices industry. The FCPA prohibits U.S. companies and their officers, directors, employees, shareholders acting on their behalf and agents from offering, promising, authorizing or making payments to foreign officials for the purpose of obtaining or retaining business abroad or otherwise obtaining favorable treatment and this law requires companies to maintain records which fairly and accurately reflect transactions and to maintain internal accounting controls. In many countries, hospitals and clinics are government-owned and healthcare professionals employed by such hospitals and clinics, with whom we regularly interact, may meet the definition of a foreign official for purposes of the FCPA. On November 9, 2007, we received a letter from the Department of Justice ("DOJ") requesting any information provided to the SEC also be provided to the DOJ on a voluntary basis.

On March 26, 2012, Biomet entered into a Deferred Prosecution Agreement ("DPA") with the DOJ and a Consent to Final Judgment ("Consent Agreement") with the SEC related to these investigations by the DOJ and the SEC. Pursuant to the DPA, the DOJ has agreed not to prosecute Biomet in connection with this matter, provided that Biomet satisfies its obligations under the agreement over the next three years. In addition, pursuant to the terms of the DPA, an independent external compliance monitor has been appointed to review Biomet's compliance with the DPA, particularly in relation to Biomet's international sales practices, for at least the first 18 months of the three year term of the DPA. The monitor has divided his review into three phases. The first phase consisted of the monitor familiarizing himself with our global compliance program and assessed the effectiveness of the program. The second phase provides for a period of time in which we are allowed the opportunity to implement the monitor's various recommendations based upon the monitor's assessment of the effectiveness of the program. The third phase commenced in June 2013 and consists of the monitor performing transactional testing on the effectiveness of our global compliance program, including transactional testing of enhanced compliance programs that were implemented in response to the monitor's recommendations. Biomet agreed to pay a monetary penalty of \$17.3 million to resolve

the charges brought by the DOJ. The terms of the DPA and the associated monetary penalty reflect Biomet's full cooperation throughout the investigation.

Biomet contemporaneously reached a Consent Agreement with the SEC to settle civil claims related to this matter. As part of the Consent Agreement, Biomet agreed to the SEC's entry of a Final Judgment requiring Biomet to disgorge profits and pay prejudgment interest in the aggregate amount of \$5.6 million.

Table of Contents

From time to time, we have been, and may be in the future, the subject of additional investigations. If, as a result of these investigations described above or any additional investigations, we are found to have violated one or more applicable laws, our business, financial condition, results of operations and cash flows could be materially adversely affected. If some of our existing business practices are challenged as unlawful, we may have to modify those practices, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Compliance with the terms of the DPA requires cooperation by many employees and others and may divert substantial financial and human resources from our other business activities.

On March 26, 2012, Biomet entered into the DPA with the DOJ related to the DOJ's FCPA investigation. Pursuant to the Deferred Prosecution Agreement, the DOJ has agreed not to prosecute Biomet in connection with this matter, provided that Biomet satisfies its obligations under the agreement over the next three years. In addition, pursuant to the terms of the Deferred Prosecution Agreement, an independent external compliance monitor has been appointed to review Biomet's compliance with the Deferred Prosecution Agreement, particularly in relation to Biomet's international sales practices, for at least the first 18 months of the three year term of the Deferred Prosecution Agreement.

Compliance with this agreement requires substantial cooperation of our employees, distributors and sales agents and the healthcare professionals with whom they interact. These efforts not only involve expense, but also require management and other key employees to focus extensively on these matters.

We could be subject to further governmental investigations or actions by other third parties as a result of our settlement with the DOJ and the Office of the Inspector General of the U.S. Department of Health and Human Services ("OIG-HHS").

We are subject to various federal and state laws concerning healthcare fraud and abuse, including false claims laws and anti-kickback laws. Violations of these laws are punishable by criminal and/or civil sanctions, including, in some instances, fines, imprisonment and, within the United States, exclusion from participation in government healthcare programs, including Medicare, Medicaid and Veterans Administration ("VA") health programs. These laws are administered by, among others, the DOJ, the OIG-HHS and state attorneys general. Many of these agencies have increased their enforcement activities with respect to medical device manufacturers in recent years.

As a result of our settlement with the DOJ and SEC related to the FCPA investigation described above, we have been and may continue to be subject to further governmental investigations by foreign governments or other claims by third parties arising from the conduct subject to the investigation.

We intend to review and take appropriate actions with respect to any such investigations or proceedings; however, we cannot assure you that the costs of defending or fines imposed in resolving those civil or criminal investigations or proceedings would not have a material adverse effect on our financial condition, results of operations and cash flows. The current global economic uncertainties may adversely affect our results of operations.

Our results of operations could be substantially affected not only by global economic conditions, but also by local operating and economic conditions, which can vary substantially by market. Unfavorable conditions can depress sales in a given market and may result in actions that adversely affect our margins, constrain our operating flexibility or result in charges which are unusual or non-recurring. Certain macroeconomic events, such as the current adverse conditions in the global economy, including most recently with the market disruptions caused by the economic and political challenges facing specific Eurozone countries such as Greece, Ireland, Italy, Portugal, and Spain, could have a more wide-ranging and prolonged impact on the general business environment, which could also adversely affect us. These economic developments could affect us in numerous ways, many of which we cannot predict. Among the potential effects could be an increase in our variable interest rates, an inability to access credit markets should we require external financing, and further impairments of our goodwill and other intangible assets. In addition, it is possible that further deteriorating economic conditions, and resulting federal budgetary concerns, could prompt the federal government to make significant changes in the Medicare program, which could adversely affect our results of operations. We are unable to predict the likely duration and severity of the current disruption in financial markets and adverse economic conditions, or the effects these disruptions and conditions could have on us.



Table of Contents

We are subject to cost-containment efforts of group purchasing organizations, which may have a material adverse effect on our financial condition, results of operations and cash flows.

Many customers of our products have joined or developed group purchasing organizations in an effort to contain costs. Group purchasing organizations negotiate pricing arrangements with medical supply manufacturers and distributors, and these negotiated prices are made available to a group purchasing organization's affiliated hospitals and other members. If we are not one of the providers selected by a group purchasing organization, affiliated hospitals and other members may be less likely to purchase our products, and if the group purchasing organization has negotiated a strict compliance contract for another manufacturer's products, we may be precluded from making sales to members of the group purchasing organization for the duration of the contractual arrangement. Our failure to respond to the cost-containment efforts of group purchasing organizations may cause us to lose market share to our competitors and could have a material adverse effect on our sales, financial condition, results of operations and cash flows.

We conduct a significant amount of our sales activity outside of the United States, which subjects us to additional business risks and may adversely affect our results due to increased costs.

During the fiscal year ended May 31, 2013, we derived approximately 39% of our net sales from sales of our products outside of the United States. We intend to continue to pursue growth opportunities in sales internationally, which could expose us to additional risks associated with international sales and operations. Our international operations are, and will continue to be, subject to a number of risks and potential costs, including:

- changes in foreign medical reimbursement policies and programs;
- unexpected changes in foreign regulatory requirements;
- differing local product preferences and product requirements;
- diminished protection of intellectual property in some countries outside of the United States;
- differing payment cycles;
- trade protection measures, import or export licensing requirements and compliance with economic sanctions laws and regulations;
- the application of U.S., U.K. and other foreign country regulatory and anti-corruption laws to our international operations;
- difficulty in staffing, training and managing foreign operations;
- differing legal regulations and labor relations;
- potentially negative consequences from changes in tax laws (including potential taxes payable on earnings of foreign subsidiaries upon repatriation); and
- political and economic instability.

In addition, we are subject to risks arising from currency exchange rate fluctuations, which could increase our costs and may adversely affect our results. The U.S. dollar value of our foreign-generated revenues varies with currency exchange rate fluctuations. Significant increases in the value of the U.S. dollar relative to foreign currencies could have a material adverse effect on our results of operations.

Recently, there have been widely publicized concerns with respect to the overall stability of the Euro as a single currency, given the economic and political challenges facing several Eurozone countries, including Greece, Ireland, Italy, Portugal and Spain. The collapse of the Euro as a common European currency, the withdrawal of one or more member countries from the EU or continuing deterioration in the creditworthiness of the Eurozone countries could adversely affect the Company's revenues, financial condition or results of operations.



Table of Contents

Any of these factors may, individually or collectively, have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our global manufacturing operations, distribution warehouses, and sales offices are exposed to political and economic risks, commercial volatility, and events beyond our control in the countries in which Biomet operates.

In addition to our principal executive offices, we maintain more than 50 other manufacturing facilities, offices and warehouse facilities in various countries and regions, including Canada, Europe, Asia Pacific and Latin America.

We currently conduct manufacturing operations in Jinhua, Zhejiang Province, China and Changzhou, Jiangsu Province, China. Our future business strategy may involve the operation of other manufacturing facilities in China. As a result of this initiative, we will be exposed to all the risks inherent in operating in an emerging market like China. In recent years the Chinese economy has undergone various developments, including beginning the transition from a more heavily government influenced-planned economy to a more market- oriented economy. Despite this transition, the Chinese government continues to own significant production assets and exercises significant control over economic growth.

Our international operations, including any planned future expansion in China, may be subject to greater or new political, legal and economic risks than those faced by our operations in the United States, including such risks as those arising from:

unexpected changes in foreign or domestic legal, regulatory or governmental requirements or approvals, such as those related to taxation, lending, import and tariffs, environmental regulations, land use rights, intellectual property and other matters;

unexpected increases in taxes, tariffs and other assessments;

diminished protection of intellectual property;

trade protection measures and import or export licensing requirements;

difficulty in staffing, training and managing foreign operations;

differing legal and labor regulations;

political and economic instability; and

operating in a market with a less developed supply chain, transportation and distribution infrastructure.

Due to these inherent risks, there can be no assurance that we will achieve anticipated benefits from global operations for any of these factors may, individually or collectively, have a material adverse effect on our business, financial condition, results of operations and cash flows.

If pricing pressures cause us to decrease prices for our goods and services and we are unable to compensate for such reductions through product mix and reductions to our expenses, our results of operations will suffer.

We have experienced and may continue to experience decreasing prices for our goods and services we offer due to pricing pressure exerted by our customers in response to increased cost containment efforts from managed care organizations and other third-party payors and increased market power of our customers as the medical device industry consolidates. If we are unable to offset such price reductions through product mix or reductions in our expenses, our business, financial condition, results of operations and cash flows will be adversely affected.

Quality problems with our manufacturing processes or our goods and services could significantly and adversely affect both our reputation for producing high-quality products and our results of operations.

Our ability to manufacture and supply high-quality goods and services is critical to the marketing success of our goods and services. If we fail to satisfy our ISO quality standards, our reputation could be significantly harmed, resulting in the loss of customers and market share and significantly and adversely affecting our business, financial condition, results of operations and cash flows.

Inventory may become obsolete due to shortened product life cycles, reduced product demand or changes in market conditions, resulting in inventory write-downs that may adversely affect our results of operations, possibly materially.

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



## Table of Contents

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 make those products currently on the market obsolete. We 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 adversely affect our business, financial condition, results of operations and cash flows.

Our business may be harmed as a result of product liability litigation.

Our involvement in the manufacture and sale of medical devices creates exposure to risks of product liability claims, particularly in the United States. In the past, we have received product liability claims relating to our products and anticipate that we will continue to receive claims in the future, some of which could have a material adverse impact on our business. In addition, 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 our products. Our existing product liability insurance coverage may be inadequate to satisfy liabilities we might incur. Moreover, even if any product liability loss is covered by an insurance policy, these policies have substantial self-insured retentions or deductibles that we remain responsible for. If a product liability claim or series of claims is brought against us for uninsured liabilities or is in excess of our insurance coverage limits, our business could suffer and our financial condition, results of operations and cash flow could be materially adversely impacted.

We have received claims for personal injury associated with our metal-on-metal hip products. The pre-trial management of certain of these claims has been consolidated in a federal court in South Bend, Indiana. Certain other claims are pending in various state courts. The number of claims continues to increase incrementally, we believe due to the negative publicity regarding metal-on-metal hip products generally. We believe we have data that supports the efficacy and safety of our metal-on-metal hip products, and we intend to vigorously defend ourselves in these matters. We currently account for these claims in accordance with our standard product liability accrual methodology on a case by case basis. Given the substantial or indeterminate amounts sought in these matters, and the inherent unpredictability of such matters, an adverse outcome in these matters in excess of the amounts included in our accrual for contingencies could have a material adverse effect on our financial condition, results of operations and cash flow. On August 27, 2013, we initiated a voluntary recall of 87,601 units of OSSEOTITE®, NanoTite™ and Dental implants, of which 34,744 units have been distributed. We are in the process of notifying clinicians and regulatory bodies of this recall, which was taken due to discoloration of some implants that did not meet our internal standard for visual inspection. The discoloration was caused by the affected implants coming into contact with residual machining fluid that may have been left on the metal packaging insert for the products. We have determined that there are no known health effects of the residue. The ultimate financial impact with respect to this matter will depend on many factors that are difficult to predict with the limited information received to date and may vary materially based on the number of and actual costs of patients seeking testing and treatment services and the number of and actual costs to settle any lawsuits filed against us, and could have a material adverse effect on our financial conditions, results of operations and cash flow.

We may be subject to intellectual property litigation and infringement claims, which could cause us to incur significant expenses or prevent us from selling our products.

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. We have 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 our financial resources and divert the time, energy and efforts of our management.

A successful claim of patent or other intellectual property infringement against us could adversely affect our growth and results of operations, in some cases materially. From time to time, we receive notices from third parties of potential infringement and receive claims of potential infringement. We may be unaware of intellectual property rights of others that may cover some of our technology. If someone claims that our products infringed their intellectual property rights, any resulting litigation could be costly and time consuming and would divert the attention of

management and key personnel from other business issues.

The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. Claims of intellectual property infringement also might require us to enter into costly royalty or license

Table of Contents

agreements. However, we may be unable to obtain royalty or license agreements on terms acceptable to us or at all. We also may be subject to significant damages or an injunction preventing us from manufacturing, selling or using some of our products in the event of a successful claim of patent or other intellectual property infringement. Any of these adverse consequences could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In January 2009, Heraeus Kulzer GmbH initiated legal proceedings in Germany against Biomet, Inc., Biomet Europe BV and certain other subsidiaries, alleging that we and Biomet Europe BV misappropriated Heraeus Kulzer trade secrets when developing our new lines of European bone cements. The lawsuit seeks damages in excess of €30.0 million and injunctive relief to preclude us from producing our current line of European bone cements. On December 20, 2012, the trial court ruled that Biomet did not misappropriate trade secrets and consequently dismissed Biomet, Inc., Biomet Europe BV, Biomet Deutschland GmbH and other defendants from the lawsuit. Biomet Orthopaedics Switzerland GmbH (“Biomet Switzerland”) remains as the only defendant in the lawsuit and as to it the trial court has ruled that Heraeus Kulzer will not be permitted to review certification materials of Biomet Switzerland for purposes of determining whether there is any evidence that would support a claim of trade secret misappropriation by that entity. The trial court’s decision remains subject to appeal by Heraeus Kulzer and we are continuing to vigorously defend this matter. We can make no assurance as to the final outcome of this matter.

On May 3, 2013, Bonutti Skeletal Innovations LLC, a company formed to hold certain patents acquired from Dr. Peter M. Bonutti and an affiliate of patent licensing firm Acacia Research Group LLC, filed suit against us in the U.S. District Court for the Eastern District of Texas, alleging a failure to pay royalties due under a license agreement with Dr. Bonutti, misuse of confidential information and infringement of U.S. Patent Nos. 5,921,986; 6,099,531; 6,423,063; 6,638,279; 6,702,821; 7,070,557; 7,087,073; 7,104,996; 7,708,740; 7,806,896; 7,806,897; 7,828,852; 7,931,690; 8,133,229; and 8,147,514. The lawsuit seeks damages in an amount yet to be determined and injunctive relief. Prior to the filing of this lawsuit, on March 8, 2013 we had filed a complaint for declaratory judgment with the U.S. District Court for the Northern District of Indiana seeking a judgment of non-infringement and invalidity of the patents at issue. We are vigorously defending this matter and believe that our defenses against infringement are valid and meritorious. We can make no assurances as to the time or resources that will be needed to devote to this litigation or its final outcome.

The conditions of the U.S. and international capital markets may adversely affect our ability to draw on our current revolving credit facilities as well as the value of certain of our investments.

We believe that our cash, other liquid assets and operating cash flow, together with available borrowings and potential access to credit and capital markets, will be sufficient to meet our operating expenses, research and development costs and capital expenditures and service our debt requirements as they become due. However, our ongoing ability to meet our substantial debt service and other obligations will be dependent upon our future performance, which will be subject to business, financial and other factors. We will not be able to control many of these factors, such as economic conditions in the markets where we operate and pressure from competitors. We cannot be certain that our cash flow will be sufficient to allow us to pay principal and interest on our debt, support our operations and meet our other obligations. If we do not have enough money, we may be required to refinance all or part of our existing debt, sell assets or borrow more money. We may not be able to do so on terms acceptable to us, if at all. In addition, the terms of existing or future debt agreements may restrict us from pursuing any of these alternatives.

If financial institutions that have extended credit commitments to us are adversely affected by the conditions of the U.S. and international capital markets, they may become unable to fund borrowings under their credit commitments to us, which could have a material adverse impact on our financial condition and our ability to borrow additional funds, if needed, for working capital, capital expenditures, acquisitions, research and development and other corporate purposes.

Loss of our key management and other personnel, or an inability to attract such management and other personnel, could impact our business.

We depend on our senior managers and other key personnel to run our business and on technical experts to develop new products and technologies. The loss of any of these senior managers or other key personnel could adversely affect our operations. Competition for qualified employees is intense, and the loss of qualified employees or an inability to

attract, retain and motivate additional highly skilled employees required for the management, operation and expansion of our business could hinder our ability to expand, conduct research and development activities successfully and develop marketable products.

Table of Contents

If we fail to retain our existing relationships with our independent sales agents and distributors or establish relationships with different agents and distributors, our results of operations may be negatively impacted. Our revenues and profitability depend largely on the ability of independent sales agents and distributors to sell our products to customers. Typically, these agents and distributors have developed long-standing relationships with our customers and provide our customers with the necessary training and product support relating to our products. If we fail to retain our existing relationships with these agents and distributors or establish relationships with different agents and distributors, our results of operations may be negatively impacted.

We may record future goodwill and/or intangible impairment charges related to one or more of our reporting units, which could materially adversely impact our results of operations.

We test our goodwill and indefinite lived intangible asset balances as of March 31 of each fiscal year for impairment. We test these balances more frequently if indicators are present or changes in circumstances suggest that impairment may exist. In evaluating the potential for impairment we make assumptions regarding revenue projections, growth rates, cash flows, tax rates and discount rates. These assumptions are uncertain and by nature can vary from actual results. Various future events could have a negative impact on the fair value of our reporting units' goodwill and indefinite lived intangibles when the annual or interim impairment test is completed. The events include, but are not limited to:

- our ability to sustain sales and earnings growth;
- the effect of anticipated changes in the size, health and activities of the population or on the demand for our products;
- our 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;
- our continued investment in new products and technologies;
- the ultimate marketability of products currently being developed;
- our success in achieving timely approval or clearance of our products with domestic and foreign regulatory entities;
- and
- the stability of certain foreign economic markets.

During the fourth quarter of fiscal year 2013, we recorded a \$240.0 million goodwill asset impairment charge related to our Europe reporting unit, primarily related to the impact of continued austerity measures on procedural volumes and pricing in certain European countries.

During the fourth quarter of fiscal year 2013, we finalized a \$327.4 million, of which \$334.1 million was recorded in the third quarter, goodwill and definite and indefinite-lived intangible assets impairment charge related to our dental reconstructive reporting unit, primarily due to declining industry market growth rates in certain European and Asia Pacific markets and corresponding unfavorable margin trends.

We have identified that our dental reconstructive reporting unit has a material amount of goodwill (\$66.3 million) that is at a higher risk of potential failure of step one of the goodwill impairment test in the future.

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

We have 14 manufacturing operations located throughout the world. However, a significant portion of our products are produced at and shipped from our facility in Warsaw, Indiana. In the event that this facility is severely damaged or destroyed as a result of a natural or man-made disaster, we would be forced to shift production to our other facilities and/or rely on third-party manufacturers. Our existing business interruption insurance coverage may be inadequate to satisfy liabilities we might incur in such a situation. If a business interruption claim or series of claims is in excess of our insurance coverage limits, or is not otherwise covered in whole or in part by our insurance

Table of Contents

coverage, our business could suffer and our financial condition, results of operations and cash flow could be materially adversely impacted.

Failure to successfully integrate acquired businesses into our operations or to otherwise successfully execute strategic transactions could adversely affect our business.

We may, from time to time, consider and take advantage of selected opportunities to grow by acquiring businesses whose operations or product lines fit well within our existing businesses or whose geographic location or market position would enable us to expand into new markets. Our ability to implement this expansion strategy will, however, depend on whether any suitable businesses are available at suitable valuations, how much money we can spend and maintaining our customer base. Any acquisition that we make could be subject to a number of risks, including failing to discover liabilities of the acquired company for which we may be responsible as a successor owner or operator despite any investigation we may make before the acquisition, our inability to assimilate the operations and personnel of the acquired company, the loss of key personnel in the acquired company and any adverse impact on our financial statements from the amortization of acquired intangible assets or the creation of reserves or write-downs. We may not be able to adequately meet these challenges, and any failure to do so could adversely affect our business, financial condition, results of operations and cash flows. In addition, if we incur additional indebtedness to finance these acquisitions, the related risks we face from our already substantial level of indebtedness could intensify.

On June 15, 2012, we announced the initial closing of the previously announced \$280.0 million acquisition of the worldwide trauma business of DePuy Orthopaedics, Inc. During the first and second quarters of fiscal year 2013, subsequent closings in various foreign countries occurred on a staggered basis, with the final closing occurring on December 7, 2012. Our integration of the operations of the acquired business requires significant efforts, including the coordination of complex information technology environments, research and development, sales and marketing, operations, manufacturing and finance.

The integration efforts related to the DePuy Trauma acquisition require significant expenses and involve significant amounts of management's time that cannot be dedicated to other initiatives. We may not be able to adequately meet these challenges, and any failure to do so could adversely affect our business, financial condition, results of operations and cash flows.

We are increasingly dependent on sophisticated information technology and if we fail to properly maintain the integrity of our data, our business could be adversely affected.

We are increasingly dependent on sophisticated information technology for our products and infrastructure. As a result of technology upgrades, recently enacted regulations, improvements in our system platforms and integration of new business acquisitions, we have been consolidating and integrating the number of systems we operate and have upgraded and expanded our information systems capabilities. Our information systems require an ongoing commitment of significant resources to maintain, protect, and enhance existing systems and keep information technology systems current. In addition, our obligations to protect patient and customer information have increased significantly. Third parties may attempt to hack into our products or systems and may obtain data relating to patients with our products or our proprietary information. If we fail to maintain or protect our information systems and data integrity effectively, we could lose existing customers, have difficulty preventing, detecting, and controlling fraud, have disputes with customers, physicians, and other health care professionals, have regulatory sanctions or penalties imposed, incur expenses or lose revenues as a result of a data privacy breach, or suffer other adverse consequences. There can be no assurance that our process of consolidating the number of systems we operate, upgrading and expanding our information systems capabilities, protecting and enhancing our systems and developing new systems to keep pace with continuing changes in information processing technology will be successful or that additional systems issues will not arise in the future.



Table of Contents

## Risks Related to Our Indebtedness and the Notes

Our substantial level of indebtedness could materially adversely affect our ability to generate sufficient cash to fulfill our obligations under the notes and any other outstanding indebtedness, our ability to react to changes in our business and our ability to incur additional indebtedness to fund future needs.

We are highly leveraged. As of May 31, 2013, we had total indebtedness of \$5,966.4 million (compared to total indebtedness of \$5,827.8 million as of May 31, 2012). The following chart shows our level of indebtedness as of May 31, 2013 and 2012:

(in millions)	May 31, 2013	May 31, 2012
Debt Instruments		
Non-U.S. facilities	\$8.3	\$3.5
Term loan facilities	3,295.4	3,274.3
Cash flow revolving credit facilities	—	—
Asset-based revolving credit facility	—	—
10% Senior Cash Pay Notes due 2017	—	761.0
10 %/11 % Senior PIK Toggle Notes due 2017	—	771.0
11 % Senior Subordinated Notes due 2017	—	1,015.0
6.500% Senior Notes due 2020	1,825.0	—
6.500% Senior Subordinated Notes due 2020	800.0	—
Premium on notes	37.7	3.0
Total debt	\$5,966.4	\$5,827.8

As of May 31, 2013, we had outstanding approximately \$3,295.4 million in aggregate principal amount of indebtedness under our senior secured credit facilities that bears interest at a floating rate. We have also entered into a series of interest rate swap agreements to fix the interest rates on approximately 59% of the borrowings under our senior secured credit facilities.

Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness. Our substantial indebtedness, combined with our other financial obligations and contractual commitments, could have important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, including the notes, and any failure to comply with the obligations under any of our debt instruments, including restrictive covenants, could result in an event of default under the indentures, any other outstanding notes and the agreements governing such other indebtedness;

- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing funds available for working capital, capital expenditures, acquisitions, research and development and other purposes;

- increase our vulnerability to adverse economic and industry conditions, which could place us at a competitive disadvantage compared to our competitors that have relatively less indebtedness;

- increase the risk we assess with our counterparties which could affect the fair value of our derivative instruments related to our debt facilities noted above;

- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;

- limit our noteholders' rights to receive payments under the notes and any other outstanding notes if secured creditors have not been paid;

Table of Contents

limit our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for working capital, capital expenditures, acquisitions, research and development and other corporate purposes; and prevent us from raising the funds necessary to repurchase all notes tendered to us upon the occurrence of certain changes of control, which would constitute a default under the indentures.

Restrictions imposed by the indentures, our senior secured credit facilities and our other outstanding indebtedness may limit our ability to operate our business and to finance our future operations or capital needs or to engage in other business activities.

The agreements governing our indebtedness, including the indentures, contain various covenants that limit our discretion in the operation of our business and also require us to meet financial maintenance tests and other covenants. The failure to comply with such tests and covenants could have a material adverse effect on us. The agreements governing our indebtedness, including the indentures, restrict our and our restricted subsidiaries' ability, among other things, to:

- incur additional indebtedness;
- pay dividends on our capital stock or redeem, repurchase or retire our capital stock or indebtedness;
- make investments, loans, advances and acquisitions;
- create restrictions on the payment of dividends or other amounts to us from our restricted subsidiaries;
- engage in transactions with our affiliates;
- sell assets, including capital stock of our subsidiaries;
- consolidate or merge;
- create liens; and
- enter into sale and lease-back transactions.

The terms of our senior secured credit facilities also restrict LVB from conducting any business or operations other than, among others, (i) owning Biomet, Inc., (ii) maintaining its legal existence, (iii) performing its obligations with respect to the senior secured credit facilities and the indentures governing the notes, (iv) publicly offering its common stock, (v) financing activities, including the issuance of securities, incurrence of debt, payment of dividends, making contributions to the capital of its subsidiaries and guaranteeing the obligations of its subsidiaries, or (vi) providing indemnification to its officers and directors.

In addition, although the agreements governing our senior secured credit facilities and the indentures governing the notes do not require us to comply with any financial ratio maintenance covenants, if Excess Global Availability (as that term is defined in the asset-based revolving credit facility, and reflects borrowing available under our senior secured revolving credit facilities) is less than 10% of the sum of (1) aggregate commitments under our asset-based revolving credit facility plus (2) the revolving credit commitments under our cash flow credit facilities at any time, the fixed charge coverage ratio as of the end of the most recently ended fiscal quarter must be greater than or equal to 1.00 to 1.00. In the event of a default under any of our senior secured credit facilities, the lenders could elect to declare all amounts outstanding under the agreements governing our senior secured credit facilities to be immediately due and payable. If the indebtedness under our senior secured credit facilities, or the notes were to be accelerated, our assets may not be sufficient to repay such indebtedness in full. In particular, noteholders will be paid only if we have assets remaining after we pay amounts due on our secured indebtedness, including our senior secured credit facilities.

Table of Contents

We, including our subsidiaries, have the ability to incur substantially more indebtedness, including senior secured indebtedness, and our noteholders' right to receive payments on each series of notes is effectively junior to the right of lenders who have a security interest in our assets to the extent of the value of those assets.

Our obligations under the notes and our guarantors' obligations under their guarantees of the notes are unsecured, but our obligations under our senior secured credit facilities and each guarantor's obligations under its guarantee of our senior secured credit facilities are secured by a security interest in substantially all of our domestic tangible and intangible assets, including the stock of substantially all of our wholly-owned U.S. subsidiaries and a portion of the stock of certain of our non-U.S. subsidiaries. If we are declared bankrupt or insolvent, or if we default under our senior secured credit facilities, the lenders could declare all of the funds borrowed thereunder, together with accrued interest, immediately due and payable. If we were unable to repay such indebtedness, the lenders could foreclose on the pledged assets to the exclusion of holders of the notes, even if an event of default exists at such time under the indentures. Furthermore, if the lenders foreclose and sell the pledged equity interests in any guarantor under the notes, then that guarantor will be released from its guarantee of the notes automatically and immediately upon such sale. In any such event, because the notes are not secured by any of our assets or the equity interests in the guarantors, it is possible that there would be no assets remaining from which noteholders' claims could be satisfied or, if any assets remained, they might be insufficient to satisfy noteholders' claims in full.

Subject to the restrictions in our senior secured credit facilities and the indentures, we, including our subsidiaries, may incur significant additional indebtedness. As of May 31, 2013:

- we and the guarantors had approximately \$330.0 million available for borrowing under our cash flow revolving credit facilities, which, if borrowed, would be senior secured indebtedness;
- we and the guarantors had \$443.0 million available for borrowing under our asset-based revolving credit facility, subject to borrowing base limitations, which, if borrowed, would be senior secured indebtedness;
- we and the guarantors have the option to incur additional incremental term loans or increase the cash flow revolving credit facilities commitments under our senior secured credit facilities up to an amount that would cause our Senior Secured Leverage Ratio (as defined in our senior secured credit facilities) to be equal to or less than 4.50 to 1.00, which, if borrowed, would be senior secured indebtedness; and
- we and the guarantors have the option to increase the asset-based revolving credit facility commitments under our asset-based revolving credit facility by up to \$100.0 million, which, if borrowed, would be senior secured indebtedness.

Although the terms of our senior secured credit facilities and the indentures contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of important exceptions, and indebtedness incurred in compliance with these restrictions could be substantial. If we and our restricted subsidiaries incur significant additional indebtedness, the related risks that we face could intensify.

We also had \$14.0 million available for borrowing under our China Facility which is net of \$6.0 million of outstanding borrowings.

We may not be able to generate sufficient cash to service all of our indebtedness, including the notes, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the notes.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures or to sell assets, seek additional capital or restructure or refinance our indebtedness, including the notes. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our



Table of Contents

business operations. The terms of existing or future debt instruments, including the indentures, may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could limit our ability to incur additional indebtedness. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Our senior secured credit facilities and the indentures restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds that we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

Repayment of our debt, including the notes, is dependent on cash flow generated by our subsidiaries.

Our subsidiaries own a significant portion of our assets and conduct a significant portion of our operations.

Accordingly, repayment of our indebtedness, including the notes, is dependent, to a significant extent, on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Unless they are guarantors of the notes, our subsidiaries do not have any obligation to pay amounts due on the notes or to make funds available for that purpose. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness, including the notes. Each subsidiary is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. While the indentures limit the ability of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments to us, these limitations are subject to certain qualifications and exceptions. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness, including the notes.

Claims of noteholders will be structurally subordinated to claims of creditors of all our non-U.S. subsidiaries and some of our U.S. subsidiaries because they will not guarantee the notes.

The notes are not guaranteed by any of our non-U.S. subsidiaries or any of our less than wholly owned U.S.

subsidiaries. Accordingly, claims of holders of the notes will be structurally subordinated to the claims of creditors of these non-guarantor subsidiaries, including trade creditors. Therefore, all obligations of our non-guarantor subsidiaries will have to be satisfied before any of the assets of such subsidiaries would be available for distribution, upon a liquidation or otherwise, to us or a guarantor of the notes.

For the fiscal years ended May 31, 2013 and 2012, our non-guarantor subsidiaries accounted for \$1,130.6 million, or 37% of our consolidated net sales and \$1,068.3 million, or 38% of our consolidated net sales, respectively. As of May 31, 2013 and 2012, our non-guarantor subsidiaries accounted for approximately \$2,622.1 million, or 27%, and \$2,734.3 million, or 26%, of our consolidated assets, respectively, and approximately \$439.4 million, or 5.6%, and \$413.1 million, or 5.3%, of our consolidated liabilities, respectively. All amounts are presented after giving effect to intercompany eliminations.

The lenders under our senior secured credit facilities will have the discretion to release any guarantors under these facilities in a variety of circumstances, which will cause those guarantors to be released from their guarantees of the notes.

While any obligations under our senior secured credit facilities remain outstanding, any guarantee of the notes may be released without action by, or consent of, any holder of the notes or the trustee under the indentures, at the discretion of lenders under our senior secured credit facilities, if the related guarantor is no longer a guarantor of obligations under our senior secured credit facilities or any other indebtedness. The lenders under our senior secured credit facilities will have the discretion to release the guarantees under our senior secured credit facilities in a variety of circumstances. Noteholders will not have a claim as a creditor against any subsidiary that is no longer a guarantor of the notes, and the indebtedness and other liabilities, including trade payables, whether secured or unsecured, of those subsidiaries will effectively be senior to claims of noteholders.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the notes.

Any default under the agreements governing our indebtedness, including a default under our senior secured credit facilities that is not waived by the required lenders, and the remedies sought by the holders of such

Table of Contents

indebtedness, could prevent us from paying principal, premium, if any, and interest on the notes and substantially decrease the market value of the notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants in the instruments governing our indebtedness (including covenants in our senior secured credit facilities and the indentures), we could be in default under the terms of the agreements governing such indebtedness, including our senior secured credit facilities and the indentures.

In the event of such default:

the holders of such indebtedness may be able to cause all of our available cash flow to be used to pay such indebtedness and, in any event, could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest;

the lenders under our senior secured credit facilities could elect to terminate their commitments thereunder, cease making further loans and institute foreclosure proceedings against our assets;

we could be forced into bankruptcy or liquidation; and

the subordination provisions in senior subordinated notes may prevent us from paying any obligation with respect to such notes.

If our operating performance declines, we may in the future need to obtain waivers from the required lenders under our senior secured credit facilities to avoid being in default. If we breach our covenants under our senior secured credit facilities and seek a waiver, we may not be able to obtain a waiver from the required lenders. If this occurs, we would be in default under our senior secured credit facilities, the lenders could exercise their rights, as described above, and we could be forced into bankruptcy or liquidation.

We may not be able to repurchase the notes upon a change of control.

Upon the occurrence of specific kinds of change of control events, we will be required to offer to repurchase all outstanding notes at 101% of their principal amount plus accrued and unpaid interest, if any. The source of funds for any such purchase of the notes will be our available cash or cash generated from our subsidiaries' operations or other sources, including borrowings, sales of assets or sales of equity. We may not be able to repurchase the notes upon a change of control because we may not have sufficient financial resources to purchase all of the notes that are tendered upon a change of control. Further, we will be contractually restricted under the terms of our senior secured credit facilities from repurchasing all of the notes tendered by holders upon a change of control. Accordingly, we may not be able to satisfy our obligations to purchase the notes unless we are able to refinance or obtain waivers under our senior secured credit facilities. Our failure to repurchase the notes upon a change of control would cause a default under the indentures and a cross default under our senior secured credit facilities. Our senior secured credit facilities also provide that a change of control will be a default that permits lenders to accelerate the maturity of borrowings thereunder. Any of our future debt agreements may contain similar provisions.

The trading prices for the notes will be directly affected by many factors, including our credit rating.

Credit rating agencies continually revise their ratings for companies they follow. The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Any such fluctuation may impact the trading price of the notes. In addition, developments in our business and operations could lead to a ratings downgrade which could adversely affect the trading price of the notes, or the trading market for the notes.

An adverse rating of the notes may cause their trading price to fall.

If a rating agency rates the notes, it may assign a rating that is lower than the rating expected by the noteholders.

Ratings agencies also may lower ratings on the notes or any of our other debt in the future, or may choose to cease providing ratings on the notes or such other debt. If rating agencies assign a lower than expected rating or reduce, or indicate that they may reduce, their ratings of our debt in the future, the trading price of the notes could significantly decline.

Table of Contents

Certain covenants under the indentures will be suspended if and for so long as the notes are rated “investment grade” by both Standard & Poor’s and Moody’s and no default has occurred and is continuing. These covenants restrict, among other things, our and our restricted subsidiaries’ ability to incur or guarantee debt or issue certain stock, pay dividends, make distributions on, or redeem or repurchase, capital stock and enter into transactions with affiliates. Because these restrictions would not apply if the notes are rated investment grade, we would be able to incur additional debt and consummate transactions that may impair our ability to satisfy our obligations with respect to the notes. In addition, we would not have to make certain offers to repurchase the notes. These covenants would be reinstated if the credit ratings assigned to the notes later declined below investment grade or a default occurs and is continuing.

Federal and state fraudulent transfer laws may permit a court to void the notes and the guarantees, subordinate claims in respect of the notes and the guarantees, and require noteholders to return payments received. If this occurs, noteholders may not receive any payments on the notes.

Federal and state fraudulent transfer and conveyance statutes may apply to the issuance of the notes and the incurrence of any guarantees. Under federal bankruptcy law and comparable provisions of state fraudulent transfer or conveyance laws, which may vary from state to state, the notes or guarantees could be voided as a fraudulent transfer or conveyance if (1) we or any of the guarantors, as applicable, issued the notes or incurred the guarantees with the intent of hindering, delaying or defrauding creditors or (2) we or any of the guarantors, as applicable, received less than reasonably equivalent value or fair consideration in return for either issuing the notes or incurring the guarantees and, in the case of (2) only, one of the following is also true at the time thereof:

- we or any of the guarantors, as applicable, were insolvent or rendered insolvent by reason of the issuance of the notes or the incurrence of the guarantees;

- the issuance of the notes or the incurrence of the guarantees left us or any of the guarantors, as applicable, with an unreasonably small amount of capital to carry on the business;

- we or any of the guarantors intended to, or believed that we or such guarantor would, incur debts beyond our or such guarantor’s ability to pay such debts as they mature; or

- we or any of the guarantors was a defendant in an action for money damages, or had a judgment for money damages docketed against us or such guarantor if, in either case, after final judgment, the judgment is unsatisfied.

A court would likely find that we or a guarantor did not receive reasonably equivalent value or fair consideration for the notes or such guarantee if we or such guarantor did not substantially benefit directly or indirectly from the issuance of the notes or the applicable guarantee. As a general matter, value is given for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or an antecedent debt is secured or satisfied.

We cannot be certain as to the standards a court would use to determine whether or not we or the guarantors were solvent at the relevant time or, regardless of the standard that a court uses, that the issuance of the guarantees would not be further subordinated to our or any of our guarantors’ other debt. Generally, however, an entity would be considered insolvent if, at the time it incurred indebtedness:

- the sum of its debts, including contingent liabilities, was greater than the fair value of all its assets;

- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

- it could not pay its debts as they become due.

If a court were to find that the issuance of the notes or the incurrence of the guarantee was a fraudulent transfer or conveyance, the court could void the payment obligations under the notes or such guarantee or further subordinate the notes or such guarantee to presently existing and future indebtedness of ours or of the related guarantor, or require the holders of the notes to repay any amounts received with respect to such guarantee. In the



## Table of Contents

event of a finding that a fraudulent transfer or conveyance occurred, noteholders may not receive any repayment on the notes. Further, the voidance of the notes could result in an event of default with respect to our and our subsidiaries' other debt that could result in acceleration of such debt.

Although each guarantee entered into by a guarantor will contain a provision intended to limit that guarantor's liability to the maximum amount that it could incur without causing the incurrence of obligations under its guarantee to be a fraudulent transfer, this provision may not be effective to protect those guarantees from being voided under fraudulent transfer law, or may reduce that guarantor's obligation to an amount that effectively makes its guarantee worthless. We are indirectly owned and controlled by the Sponsors, and the Sponsors' interests as equity holders may conflict with the interests of noteholders as creditors.

Biomet is a subsidiary of Parent, which is controlled by the Sponsors, and, accordingly, the Sponsors have the ability to control our policies and operations. The interests of the Sponsors may not in all cases be aligned with our noteholders' interests. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of our equity holders might conflict with our noteholders' interests. In addition, our equity holders may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments, even though such transactions might involve risks to holders of the notes. Furthermore, the Sponsors may in the future own businesses that directly or indirectly compete with us. The Sponsors also may pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us.

### Risks Related to Our Common Stock

There are risks associated with an investment in our common stock given the generally illiquid nature of our common stock.

There is no public market for our common stock and the common stock, options and restricted stock units are subject to significant restrictions on transfer, including restrictions under the federal and state securities laws, the Management Stockholders' Agreement for Senior Executives among LVB and the stockholders party thereto, dated as of September 13, 2007 and the Management Stockholders' Agreement among LVB and the stockholders party thereto, dated as of November 6, 2007 (collectively, the "Stockholders Agreement"), which substantially restrict the liquidity of the securities described herein. In addition, there are no assurances that a liquidity event as described in the Stockholders Agreement will occur, and if it does so when such event occurs or on what terms and conditions. Therefore investors must be prepared to bear the economic risk of holding such securities for an indefinite period of time and without any assurance that the options, restricted stock units or the common stock will generate any investment return.

We do not expect to pay dividends on our common stock in the foreseeable future.

We are a holding company with no business operations of our own. As a result, we depend on our operating subsidiaries for cash to make dividend payments. Deterioration in the financial conditions, earnings or cash flow of our significant subsidiaries for any reason could limit or impair their ability to pay cash dividends or other distributions to LVB. We may also need to contribute additional capital to improve the capital ratios of certain of our subsidiaries, which could also affect the ability of these subsidiaries to pay dividends.

In addition, the terms of certain of the outstanding indebtedness of subsidiaries of LVB substantially restricts our ability to pay dividends. See "Management's Discussion and Analysis of Our Financial Condition and Results of Operations—Credit Facilities and Notes." There cannot be any assurance that agreements governing the current and future indebtedness of LVB or its subsidiaries will permit LVB or its subsidiaries to provide LVB's stockholders with sufficient dividends, distributions or loans. Accordingly, the restrictions above would limit our ability to make dividend payments to our stockholders, and investors must be prepared to rely on sales of their common stock after price appreciation to earn an investment return, which may never occur, particularly in view of our transfer restrictions applicable to our common stock. Any determination to pay dividends in the future will be made at the discretion of our board of directors and will depend on our results of operations, cash flows, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors the board deems relevant.

Item 1B. Unresolved Staff Comments.  
Not applicable.

42

---

Table of Contents

## Item 2. Properties.

## Our Facilities

Our principal executive offices are at 56 East Bell Drive, Warsaw, Indiana. In addition, we maintain more than 50 other manufacturing facilities, offices and warehouse facilities in various countries, including Canada and numerous countries within Europe, Asia Pacific and Latin America. We believe that all of our facilities are adequate, well maintained and suitable for the development, manufacture, distribution and marketing of all our products. The following is a list of our principal properties as of May 31, 2013:

FACILITY	LOCATION	SQUARE FEET	OWNED/ LEASED
Corporate headquarters of Biomet, Inc.; manufacturing, storage and research and development facilities of Biomet Manufacturing, LLC; manufacturing & storage facilities of Biomet Microfixation, LLC; distribution center and offices of Biomet Orthopedics, LLC; distribution center and offices of Biomet Sports Medicine, LLC; distribution center and offices of Biomet Biologics, LLC and distribution center of EBI, LLC	(1) Warsaw, Indiana	541,699	Owned
	(2) Warsaw, Indiana	13,300	Leased
	(3) Warsaw, Indiana	32,877	Leased
	(4) Milford, Indiana	54,880	Leased
Administrative facility of EBI, LLC and administrative offices of Electro-Biology, LLC	Parsippany, New Jersey	102,224	Leased
Administrative, manufacturing and distribution facility of Biomet Microfixation, LLC	Jacksonville, Florida	82,500	Owned
Office, manufacturing and distribution facility of Biomet 3i, LLC	(1) Palm Beach Gardens, Florida	117,000	Owned
	(2) Palm Beach Gardens, Florida	69,000	Owned
Office, manufacturing and distribution facility of Citra Labs, LLC	(a)		
	Braintree, Massachusetts	32,150	Leased
Manufacturing facility of Biomet Fair Lawn, LLC	Fair Lawn, New Jersey	40,000	Owned
Office and manufacturing facility of Electro-Biology, LLC	Guaynabo, Puerto Rico	34,700	Owned
Office and manufacturing facilities of Interpore Spine Ltd.	(1) Irvine, California	36,800	Leased
	(2) Irvine, California	2,700	Leased
Office and warehouse facilities of Biomet Europe B.V.	Hazeldonk, The Netherlands	131,320	Leased
Office and research and development facilities for Trauma operations	Miami, Florida	30,850	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
Administrative offices of Biomet Europe B.V. and office and warehouse facility of Biomet Nederland B.V. and Biomet Microfixation Europe B.V.	Dordrecht, The Netherlands	37,700	Owned
Office and manufacturing facility of met 3i Dental Iberica, S.L..	Valencia, Spain	69,600	Owned
Manufacturing and administrative facilities of Biomet UK Ltd.	(1) Bridgend, South Wales	111,956	Owned
	(2) Swindon, England	54,800	Owned
Manufacturing, administrative and warehouse facilities of Zhejiang Biomet	Jinhua, China	110,000	Owned
	Changzhou, China	82,000	Owned

Manufacturing, administrative and warehouse facilities  
of Changzhou Biomet

Administrative office facilities for China operations	Shanghai, China	6,100	Leased
Manufacturing facility for Trauma operations (b)	Le Locle, Switzerland	115,240	Leased

---

(a) Includes 23,000 square feet of space in this facility that is leased to other parties.

(b) On July 16, 2013, Biomet issued a press release announcing that it will close its manufacturing operation in Le Locle, Switzerland.

Our properties in Warsaw, Indiana and Palm Beach Gardens, Florida secure our obligations under our senior secured cash flow facilities. We believe our headquarters, manufacturing and other facilities are suitable for their respective uses and are, in all material respects, adequate for our present needs. Our properties are subject to various federal, state, foreign and local laws and regulations regulating their operation. We do not believe that compliance with such laws and regulations will materially affect our financial position or results of operations.

Table of Contents

Item 3. Legal Proceedings.

Information with respect to legal proceedings can be found in Note 16, Contingencies, to the consolidated financial statements contained in Part II, Item 8 of this report and is hereby incorporated by reference herein.

Item 4. Mine Safety Disclosures.

Not applicable.

Table of Contents

## Part II.

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

## Market and other information

We are a privately-owned company with no established public trading market for our common stock.

## Holders

As of July 31, 2013, there was one holder of Biomet, Inc.'s common stock, LVB Acquisition, Inc., and 202 holders of LVB Acquisition, Inc.'s common stock (or 573 holders on a fully diluted basis assuming exercise of outstanding options and settlement of outstanding restricted stock units). See "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

## Dividends

We are currently restricted in our ability to pay dividends under various covenants of our debt agreements, including our credit facilities and the indentures governing the notes issued by Biomet, Inc. and did not declare or pay any dividends to our shareholders during the fiscal years ended May 31, 2013 and May 31, 2012. We do not expect for the foreseeable future to pay dividends on our common stock. Any future determination to pay dividends will depend upon, among other factors, our results of operations, financial condition, cash flows, capital requirements, any contractual restrictions and any other considerations our Board of Directors deems relevant.

## Securities authorized for issuance under equity compensation plans

As of May 31, 2013

Plan category	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				
Stock options	35,967,289	\$7.88		2,552,711
Restricted Stock Units	13,053,500	\$7.88	*	946,500
Equity compensation plans not approved by security holders	—	—		—
Total	49,020,789			3,499,211

\* Value of shares underlying the restricted stock units as of date of grant

Table of Contents

## Item 6. Selected Financial Data.

## Statement of Operations Data

(in millions)	Fiscal Year Ended May 31,				
	2013	2012	2011	2010	2009
Net sales	\$3,052.9	\$2,838.1	\$2,732.2	\$2,698.0	\$2,504.1
Cost of sales	996.5	894.4	838.7	819.9	828.4
Gross profit	2,056.4	1,943.7	1,893.5	1,878.1	1,675.7
Selling, general and administrative expense	1,189.4	1,053.3	1,041.7	1,042.3	1,003.6
Research and development expense	150.3	126.8	119.4	106.6	93.5
Amortization	313.8	327.2	367.9	372.6	375.8
Goodwill and intangible assets impairment charge	567.4	529.8	941.4	—	551.1
Operating income (loss)	(164.5 )	(93.4 )	(576.9 )	356.6	(348.3 )
Interest expense	398.8	479.8	498.9	516.4	550.3
Other (income) expense	177.8	17.6	(11.2 )	(18.1 )	21.8
Loss before income taxes	(741.1 )	(590.8 )	(1,064.6 )	(141.7 )	(920.4 )
Benefit from income taxes	(117.7 )	(132.0 )	(214.8 )	(94.1 )	(171.2 )
Net loss	\$(623.4 )	\$(458.8 )	\$(849.8 )	\$(47.6 )	\$(749.2 )

## Balance Sheet Data

(in millions)	May 31, 2013	May 31, 2012	May 31, 2011	May 31, 2010	May 31, 2009
Current assets less current liabilities	\$1,208.5	\$1,200.8	\$1,079.0	\$786.5	\$756.9
Total assets	9,794.7	10,420.4	11,357.0	11,969.0	12,600.9
Total debt	5,966.4	5,827.8	6,020.3	5,896.5	6,212.7
Shareholder's equity	1,968.6	2,682.1	3,175.1	3,733.5	3,840.3

## Table of Contents

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion reflects the results of operations and financial condition of Biomet, Inc., which are materially the same as the results of operations and financial condition of LVB. Therefore, the discussions provided are applicable to each of LVB and Biomet, Inc., unless otherwise noted. The principal difference in the financial statements of LVB and Biomet, Inc. relates to the fact that while LVB is a guarantor under our senior secured credit facilities, it is not a guarantor under the indentures governing the notes.

The following discussion and analysis of our financial condition and results of operations contains forward-looking statements, which are subject to numerous risks and uncertainties, including, but not limited to, those described in "Risk Factors" and "Forward-Looking Statements" of this annual report. Actual results may differ materially from those contained in any forward-looking statements.

#### Executive Overview

Our net sales for the year ended May 31, 2013, increased 7.6% to \$3,052.9 million, compared to \$2,838.1 million for the year ended May 31, 2012, driven primarily by our acquisition of DePuy's worldwide trauma business (the "Trauma Acquisition") described below, reconstructive growth in some international regions and strong extremities growth in the U.S., partially offset by unfavorable foreign currency translation. For the year ended May 31, 2013, the effect of foreign currency fluctuations negatively impacted reported net sales by \$49.0 million, with Europe reported net sales negatively impacted by \$29.5 million and International reported net sales negatively impacted by \$19.5 million. The following represents financial highlights for the year ended May 31, 2013 compared to the year ended May 31, 2012. Large Joint Reconstructive product sales decreased 0.1% worldwide, increased 1.1% in the U.S and increased 5.7% in International.

Sports, Extremities and Trauma ("S.E.T.") product sales increased 66.0% worldwide and 58.8% in the U.S. Excluding the Trauma Acquisition, S.E.T. sales increased 9.1% worldwide and 11.8% in the U.S. Trauma Acquisition sales of \$205.6 million were excluded in order to provide period-over-period comparability.

Net loss was \$623.4 million and adjusted net income increased 46.1% to \$368.0 million. The increase in our adjusted net income was primarily driven by the impact of increased operating income, a reduction in our interest expense as a result of our refinancing activities and a lower effective tax rate applicable to adjusted net income.

On May 24, 2012, DePuy Orthopaedics, Inc. accepted our binding offer to purchase certain assets representing substantially all of DePuy's worldwide trauma business, which involves researching, developing, manufacturing, marketing, distributing and selling products to treat certain bone fractures or deformities in the human body. On June 15, 2012, the Company announced the initial closing of the Trauma Acquisition. During the first and second quarters of fiscal year 2013, subsequent closings in various foreign countries occurred on a staggered basis, with the final closing occurring on December 7, 2012.

We have been active in the capital markets during fiscal year 2013. Our objectives included reducing market risk by extending the maturity on the majority of our term loans from March 2015 to July 2017, reducing the cost of our capital structure and retaining access to liquidity through the refinancing of our cash flow and asset-based revolvers.

#### Opportunities and Challenges

We believe that growth opportunities exist in the global orthopedics market as a result of favorable demographics in major markets and underserved needs for musculoskeletal care in certain emerging markets. As the baby boomer population ages and life expectancy increases, the elderly will represent a higher percentage of the overall population. Many conditions that require orthopedic surgery affect people in middle age or later in life which is expected to drive growth in procedural volumes. According to U.S. Census Bureau "2008 National Population Projections", the U.S. population aged 55 to 74 is expected to grow at approximately two times the average rate of population growth from 58 million and 19% of the population in 2010 to 79 million and 21% of the population in 2030. According to 2012 Eurostat projections, the European population aged 55 to 74 is expected to grow at approximately five times the average rate of population growth from 107 million and 21% of the population in 2010 to 133 million and 26% of the population in 2030. The US, Europe, and Japan account for more the 80% of the global orthopedics marketplace; however less than 20% of the world's population of 7 billion people live in those geographic regions. We believe



significant orthopedic opportunities exist outside of these three geographic markets as most of the people will need musculoskeletal care throughout their lives, which is expected to result in growth in these emerging markets.

Table of Contents

Our results of operations could be substantially affected not only by global economic conditions, but also by local operating and economic conditions, which can vary substantially by market. Unfavorable conditions can depress sales in a given market and may result in actions that adversely affect our margins, constrain our operating flexibility or result in charges which are unusual or non-recurring. Certain macroeconomic events, such as the current adverse conditions in the global economy, could have a more wide-ranging and prolonged impact on the general business environment, which could also adversely affect us.

In the United States, healthcare providers that purchase our products (e.g., hospitals, physicians, 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. In March 2010, comprehensive health care reform legislation was enacted through the passage of the Patient Protection and Affordable Health Care Act (H.R. 3590) and the Health Care and Education Reconciliation Act (H.R. 4872). Among other initiatives, these laws impose a 2.3% excise tax on domestic sales of medical devices following December 31, 2012, which is estimated to contribute approximately \$20 billion to healthcare reform. Various healthcare reform proposals have also emerged at the state level. Outside of the excise tax, which has impacted our results of operations and cash flows following December 31, 2012, we cannot predict with certainty what healthcare initiatives, if any, will be implemented at the state level, or what the ultimate effect of federal health care reform or any future legislation or regulation will have on us. However, an expansion of government's role in the U.S. healthcare industry may lower reimbursements for our products, reduce medical procedure volumes and adversely affect our business, results of operations and cash flows, possibly materially.

Outside the United States, reimbursement systems vary significantly from country to country. If adequate levels of reimbursement from third-party payors outside the United States are not obtained, international sales of our products may decline. Many foreign markets, including Canada and some European and Asian countries, have decreased reimbursement rates. Our ability to continue to sell certain products profitably in these markets may diminish if the government-managed healthcare systems continue to reduce reimbursement rates, which can decrease pricing and procedural volume.

Seasonality

Our business is somewhat seasonal in nature, as many of our products are used in elective procedures, which typically decline during the summer months, particularly in European countries, and the winter holiday season.

Table of Contents

## Results of Operations

For the Year Ended May 31, 2013 Compared to the Year Ended May 31, 2012

(in millions, except percentages)	Year Ended May 31, 2013	Percentage of Net Sales	Year Ended May 31, 2012	Percentage of Net Sales	Percentage Increase/ (Decrease)	
Net sales	\$3,052.9	100.0	% \$2,838.1	100.0	% 7.6	%
Cost of sales	996.5	32.6	894.4	31.5	11.4	
Gross profit	2,056.4	67.4	1,943.7	68.5	5.8	
Selling, general and administrative expense	1,189.4	39.0	1,053.3	37.1	12.9	
Research and development expense	150.3	4.9	126.8	4.5	18.5	
Amortization	313.8	10.3	327.2	11.5	(4.1)	)
Goodwill & intangible assets impairment charge	567.4	18.6	529.8	18.7	*	
Operating loss	(164.5)	) (5.4)	) (93.4)	) (3.3)	) *	
Interest expense	398.8	13.1	479.8	16.9	(16.9)	)
Other (income) expense	177.8	5.8	17.6	0.6	*	
Other expense, net	576.6	18.9	497.4	17.5	*	
Loss before income taxes	(741.1)	) (24.3)	) (590.8)	) (20.8)	) *	
Benefit from income taxes	(117.7)	) (3.9)	) (132.0)	) (4.6)	) *	
Net loss	\$(623.4)	) (20.4)	)% \$(458.8)	) (16.2)	)% *	
Adjusted net income <sup>(1)</sup>	\$368.0	12.1	% \$251.8	8.9	% 46.1	%
Adjusted EBITDA <sup>(1)</sup>	\$1,077.3	35.3	% \$1,031.1	36.3	% 4.5	%

(1) See "Non-GAAP Financial Information" at the end of this item for a reconciliation of non-GAAP financial measures.

\*The percentage change is not as meaningful as the change in the dollar value.

## Sales

Net sales were \$3,052.9 million for the year ended May 31, 2013, and \$2,838.1 million for the year ended May 31, 2012. The following tables provide net sales by geography and product category:

## Geography Sales Summary

(in millions, except percentages)	Year Ended May 31, 2013	Percentage of Net Sales	Year Ended May 31, 2012	Percentage of Net Sales	Percentage Increase/ (Decrease)	
United States	\$1,862.2	61.0	% \$1,713.3	60.4	% 8.7	%
Europe	710.2	23.3	702.7	24.8	1.1	
International <sup>(1)</sup>	480.5	15.7	422.1	14.8	13.8	
Total	\$3,052.9	100.0	% \$2,838.1	100.0	% 7.6	%

(1) International primarily includes Canada, South America, Mexico, and the Asia Pacific region.

Table of Contents

## Product Category Summary

(in millions, except percentages)	Year Ended May 31, 2013	Percentage of Net Sales	Year Ended May 31, 2012 <sup>(1)</sup>	Percentage of Net Sales	Percentage Increase/ (Decrease)	
Large Joint Reconstructive	\$1,696.3	55.6	% \$1,698.8	59.9	% (0.1	)%
Sports, Extremities, Trauma (S.E.T.)	600.1	19.7	361.6	12.7	66.0	
Spinal & Bone Healing	291.3	9.5	306.8	10.8	(5.1	)
Dental	257.0	8.4	267.7	9.4	(4.0	)
Other	208.2	6.8	203.2	7.2	2.5	
Total	\$3,052.9	100.0	% \$2,838.1	100.0	% 7.6	%

(1) New product categories were adopted in order to more closely represent the way we report sales and market products. Certain amounts have been reclassified to conform to the current presentation.

## Large Joint Reconstructive

Worldwide net sales of large joint reconstructive products for the year ended May 31, 2013 were \$1,696.3 million, or 55.6% of net sales, a decrease of 0.1% compared to net sales of \$1,698.8 million, or 59.9% of net sales, during the year ended May 31, 2012.

Knee product sales decreased 0.2% worldwide, increased 0.6% in the United States and increased 5.9% in International during the year ended May 31, 2013, compared to the year ended May 31, 2012. Unfavorable foreign currency translation negatively impacted our knee sales. Key products during the year ended May 31, 2013 included our Vanguard<sup>®</sup> SSK 360 Revision System, the Signature<sup>™</sup> Personalized Patient Care System, E1<sup>®</sup> Vitamin E infused bearings and the OSS<sup>™</sup> (Orthopaedic Salvage System). Procedure volume and favorable product mix during the year was partially offset by low single digit price declines.

Hip product sales were flat worldwide, increased 1.8% in the United States and increased 5.7% in International during the year ended May 31, 2013, compared to the year ended May 31, 2012. Unfavorable foreign currency translation negatively impacted our hip sales. We continued to see strong market demand for our Arcos<sup>®</sup> Modular Femoral Revision System and our new Taperloc<sup>®</sup> Complete Hip Stem during the year ended May 31, 2013. In addition, the Microplasty<sup>®</sup> version of the Taperloc<sup>®</sup> Complete Hip Stem and the GTS (Global Tissue Sparing) short stem received strong market acceptance. Key acetabular products included the Ringloc<sup>®</sup>+ cup, E1<sup>®</sup> and ArCom XL<sup>®</sup> bearings, as well as our Active Articulation<sup>™</sup> Systems that are available with E<sup>®</sup>lor ArCom XL<sup>®</sup> liners. Procedure volume and favorable product mix during the year was partially offset by low single digit price declines.

Sales of bone cement and other reconstructive products decreased 0.3% worldwide and increased 2.1% in the United States during the year ended May 31, 2013, compared to the year ended May 31, 2012. Demand for our Cobalt<sup>™</sup> MV (Medium Viscosity) and HV (High Viscosity) cements with Gentamicin contributed to our sales in this category. The Optipac<sup>®</sup> Pre-Packed Cement Mixing System continued to be well received in the European market during the year ended May 31, 2013. Demand for our StageOne<sup>™</sup> Knee and Modular Hip Cement Spacer Molds continued to increase.

S.E.T.  
Worldwide net sales of S.E.T. products for the year ended May 31, 2013 were \$600.1 million, or 19.7% of net sales, representing a 66.0% increase compared to net sales of \$361.6 million, or 12.7% of net sales, during the year ended May 31, 2012. S.E.T. sales, excluding the Trauma Acquisition, increased 9.1% worldwide and 11.8% in the U.S. Trauma Acquisition sales of \$205.6 million were excluded in order to provide period-over-period comparability. Sports medicine sales increased 6.0% worldwide and decreased 0.1% in the United States during the year ended May 31, 2013, compared to the year ended May 31, 2012. The sales increase was primarily driven by strong demand for our JuggerKnot<sup>™</sup> brand, which includes soft anchors to repair soft tissue in the shoulder, hand and wrist, and foot and ankle. Additional key products contributing to the sales growth were the TunneLoc<sup>®</sup> Tibial Fixation Device and the ToggleLoc<sup>™</sup> Femoral Fixation Device with and without ZipLoop<sup>™</sup> Technology. The sales



## Table of Contents

increase was partially offset due to competitive pressures caused by the introduction of new products that compete with our soft anchor technology.

Extremity product sales increased 18.9% worldwide and 26.7% in the United States during the year ended May 31, 2013, compared to the year ended May 31, 2012. The increase was primarily driven by strong market demand for our Comprehensive® product lines including our Primary, Reverse, Fracture and S.R.S. (Segmental Revision System) Shoulder Systems.

Trauma product sales increased 252.3% worldwide and 243.5% in the United States, during the year ended May 31, 2013, compared to the year ended May 31, 2012, driven by \$205.6 million of sales related to the Trauma Acquisition. Trauma sales, excluding the Trauma Acquisition, decreased 3.7% worldwide and 0.2% in the U.S. Key products acquired as a result of the Trauma Acquisition include the DVR® Anatomic Volar Plating Systems, the A.L.P.S.™ Plating Systems, and the AFFIXUS® Hip Fracture Nails.

### Spine & Bone Healing

Worldwide net sales of spine & bone healing products for the year ended May 31, 2013 were \$291.3 million, or 9.5% of net sales, representing a 5.1% decrease compared to net sales of \$306.8 million, or 10.8% of net sales, for the year ended May 31, 2012. Spine & Bone Healing sales decreased during the year primarily due to the divestiture of our bracing business, mid-single-digit price erosion, soft volumes due to the general economy, a challenging reimbursement environment for some fusion procedures and the presence of physician-owned distributorships. The sales decrease was partially offset by increased royalty revenue.

Spine product sales increased 0.7% worldwide and 1.4% in the United States during the year ended May 31, 2013, compared to the year ended May 31, 2012. Price declines in spine hardware continued to be in the mid-single digit range. Spine product sales increased during the year primarily due to increased royalty revenue. New products and services that contributed to sales during the year ended May 31, 2013, included the Lineum® Posterior Occipital-Cervical-Thoracic (OCT) System that features a proprietary translating thoracic pedicle screw; PlatFORM™ CM, an all natural, osteoconductive material; and Cellentra™ VCBM (Viable Cell Bone Matrix), an allogenic bone graft substitute.

Sales of bone healing products decreased 21.2% worldwide and 21.3% in the United States during the year ended May 31, 2013, compared to the year ended May 31, 2012. The primary driver of the decrease was the divestiture of our bracing business, as well as declines in our non-invasive stimulation business due primarily to challenging end-user market conditions.

### Dental

Worldwide net sales of dental products for the year ended May 31, 2013 were \$257.0 million, or 8.4% of net sales, representing a 4.0% decrease compared to net sales of \$267.7 million, or 9.4% of net sales, during the year ended May 31, 2012. Unfavorable foreign currency translation impacted our dental sales by \$5.4 million. Dental sales in the U.S. increased 4.1% during the year ended May 31, 2013. While the U.S. dental market has been stronger than the market in Europe, there was continued softness worldwide as challenging economic conditions persisted. Dental sales were negatively impacted by unfavorable media reports in Japan related to the dental implant industry.

### Other

Worldwide net sales of other products for the year ended May 31, 2013 were \$208.2 million, or 6.8% of net sales, representing a 2.5% increase compared to net sales of \$203.2 million, or 7.2% of net sales, during the year ended May 31, 2012. Our microfixation product sales continued to be strong, driven by continued market acceptance of the iQ® Intelligent Delivery System, the TraumaOne™ Plating System and the SternaLo® Blu Primary Closure System, as well as the Pectus Bar product line. Our microfixation sales growth was partially offset by a decrease in sales of autologous therapies.

### Gross Profit

Gross profit for the year ended May 31, 2013 increased to \$2,056.4 million as compared to gross profit for the year ended May 31, 2012 of \$1,943.7 million, or 67.4% and 68.5% of net sales, respectively. Gross profit as a percentage of net sales increased 0.2% due to lower manufacturing costs resulting from improvements in our global



Table of Contents

plant network and improved geographic sales mix partially offset by lower selling prices. Gross profit as a percentage of net sales decreased 1.3% due to increased litigation settlements and reserves and product rationalization charges in our global spine and trauma product lines. Product rationalization is related to more focused product offerings for spine through innovative product development and to product redundancies related to the Trauma Acquisition.

**Selling, General and Administrative Expense**

Selling, general & administrative expense during the year ended May 31, 2013 and May 31, 2012 was \$1,189.4 million and \$1,053.3 million, respectively, or 39.0% and 37.1% of net sales, respectively. Expense as a percentage of net sales increased by 1.0% due to investments in our sales force related to the Trauma Acquisition and direct-to-consumer marketing campaign and increased bad debt expense primarily outside of the United States. Expense also increased as a percentage of net sales by 0.9% related to stock-based compensation expense, litigation and other legal fees, and costs related to the Trauma Acquisition. See “Note 12 — Share-based Compensation and Stock Plans” to the consolidated financial statements contained in Part II, Item 8 of this report, for discussion of modifications contributing to increased stock-based compensation expense. Prior year litigation and other legal fees benefited from a legal settlement related to the Heraeus litigation.

**Research and Development Expense**

Research and development expense during the year ended May 31, 2013 and May 31, 2012 was \$150.3 million and \$126.8 million, respectively, or 4.9% and 4.5% of net sales, respectively. Research and development increased as a percentage of net sales by 0.3% due to investments in both our core business, including the Trauma Acquisition within S.E.T., as well as targeted emerging technologies. Expense also increased as a percentage of net sales by 0.1% due to stock-based compensation expense.

**Amortization**

Amortization expense for the year ended May 31, 2013 was \$313.8 million, or 10.3% of net sales, compared to \$327.2 million for the year ended May 31, 2012, or 11.5% of net sales. This decrease was primarily due to intangible asset impairment charges taken during both fiscal years 2013 and 2012 as described below.

**Goodwill and Intangible Assets Impairment Charge**

During fiscal year 2013, we recorded a \$567.4 million goodwill and definite and indefinite-lived intangible assets impairment charge related to our dental reconstructive and Europe reporting units, primarily due to the impact of continued austerity measures on procedural volumes and pricing in certain European countries for our Europe reporting unit and declining industry market growth rates in certain European and Asia Pacific markets and corresponding unfavorable margin trends for our dental reconstructive reporting unit. During the fourth quarter of fiscal 2012, we recorded a \$529.8 million goodwill and definite and indefinite-lived intangible assets impairment charge primarily related to our spine & bone healing and dental reconstructive reporting units, due primarily to evidence of declining industry market growth rates in certain European and Asia Pacific markets and unfavorable margin trends resulting from changes in product mix in our dental reconstructive reporting unit and growth rate declines as compared to the original purchase accounting assumptions at the time of the Merger for our spine & bone healing reporting unit.

**Interest Expense**

Interest expense was \$398.8 million for the year ended May 31, 2013, compared to interest expense of \$479.8 million for the year ended May 31, 2012. The decrease in interest expense was primarily due to lower average interest rates on our term loans and lower bond interest as a result of refinancing activities in fiscal year 2013.

**Other (Income) Expense**

Other (income) expense was expense of \$177.8 million for the year ended May 31, 2013, compared to expense of \$17.6 million for the year ended May 31, 2012. The expense for the year ended May 31, 2013 is primarily composed of the loss on retirement of bonds of \$155.2 million and the write off of deferred financing fees related to the tender/retirement of the senior notes due 2017 of \$17.1 million, while the year ended May 31, 2012 included an other-than-temporary impairment loss related to the Greek bonds.



Table of Contents

## Benefit from Income Taxes

The effective income tax rate was 15.9% for the year ended May 31, 2013 compared to 22.3% for the year ended May 31, 2012. The primary factor in determining the effective tax rate is the mix of various jurisdictions in which profits have to be earned and taxed. The effective tax rate was also impacted by non-deductible goodwill impairment. In fiscal years ended May 31, 2013 and 2012, \$474.4 million and \$291.9 million of goodwill impairment charges, respectively, were treated as non-deductible permanent differences and contributed significantly to the effective tax rate being lower than U.S. statutory tax rates. The effective tax rate for the year ended May 31, 2013 was decreased due to increases in valuation allowances relating to foreign net operating loss carryforwards, increases in the company's state effective tax rate and an increase in liabilities for uncertain tax benefits, offset by reductions related to changes in assumptions regarding the permanent reinvestment of earnings of foreign operations and the reduction in United Kingdom tax rates. The May 31, 2012 effective tax rate decreased due to income inclusions related to U.S. anti-deferral provisions and updated assertions regarding the permanent reinvestment of earnings of foreign operations, offset by settlements relating to uncertain tax benefits and changes in statutory tax rates (particularly in the United Kingdom).

Non-GAAP Financial Measures<sup>(1)</sup>

## Adjusted Net Income

Adjusted Net Income increased to \$368.0 million for the year ended May 31, 2013 compared to \$251.8 million for the year ended May 31, 2012, or 12.1% and 8.9% of net sales, respectively. The \$116.2 million improvement in adjusted net income was driven by an increase of \$32.8 million in operating income. On a percentage of sales basis, adjusted net income was impacted unfavorably by 1.1% as a result of higher selling, general & administrative and research and development expense. Interest expense was lower by \$81.0 million or 3.8% of net sales due to lower average interest rates on our term loans and lower bond interest as a result of refinancing activities. The effective tax rate attributable to Adjusted Net Income decreased to 24.0% for the year ended May 31, 2013 from 28.0% for the year ended May 31, 2012. The effective tax rate decreased as a result of the impact of supply chain improvements on the mix of various jurisdictions in which profits were earned and taxed.

## Adjusted EBITDA

Adjusted EBITDA increased to \$1,077.3 million for the year ended May 31, 2013 compared to \$1,031.1 million for the year ended May 31, 2012, or 36.3% and 37.0% of net sales, respectively. Gross profit increased Adjusted EBITDA as a percentage of net sales by 0.2% due to impacts of lower manufacturing costs resulting from improvements in our global plant network and improved geographic sales mix partially offset by lower selling prices. Selling, general & administrative expense decreased Adjusted EBITDA as a percentage of net sales by 1.0% due to investments in our sales force related to the Trauma Acquisition and direct-to-consumer marketing campaign and increased bad debt expense primarily outside of the United States. Research and development expense decreased Adjusted EBITDA as a percentage of net sales by 0.3% due to investments in both our core business, including the Trauma Acquisition within S.E.T., as well as targeted emerging technologies.

(1) See "Non-GAAP Financial Information" at the end of this item for a reconciliation of non-GAAP financial measures.

Table of Contents

For the Year Ended May 31, 2012 Compared to the Year Ended May 31, 2011

(in millions, except percentages)	Year Ended May 31, 2012	Percentage of Net Sales	Year Ended May 31, 2011	Percentage of Net Sales	Percentage Increase/ (Decrease)	
Net sales	\$2,838.1	100.0	% \$2,732.2	100.0	% 3.9	%
Cost of sales	894.4	31.5	838.7	30.7	6.6	
Gross profit	1,943.7	68.5	1,893.5	69.3	2.7	
Selling, general and administrative expense	1,053.3	37.1	1,041.7	38.1	1.1	
Research and development expense	126.8	4.5	119.4	4.4	6.2	
Amortization	327.2	11.5	367.9	13.5	(11.1)	)
Goodwill & intangible assets impairment charge	529.8	18.7	941.4	34.5	*	
Operating loss	(93.4)	) (3.3)	) (576.9)	) (21.1)	) *	
Interest expense	479.8	16.9	498.9	18.3	(3.8)	)
Other (income) expense	17.6	0.6	(11.2)	) (0.4)	) *	
Other expense, net	497.4	17.5	487.7	17.9	2.0	
Loss before income taxes	(590.8)	) (20.8)	) (1,064.6)	) (39.0)	) *	
Benefit from income taxes	(132.0)	) (4.6)	) (214.8)	) (7.9)	) *	
Net loss	\$(458.8)	) (16.2)	)% \$(849.8)	) (31.1)	)% *	
Adjusted net income <sup>(1)</sup>	\$251.8	8.9	% \$205.2	7.5	% 22.7	%
Adjusted EBITDA <sup>(1)</sup>	\$1,031.1	36.3	% \$1,010.4	37.0	% 2.0	%

(1) See "Non-GAAP Financial Information" at the end of this item for a reconciliation of non-GAAP financial measures.

\*The percentage change is not as meaningful as the change in the dollar value.

**Sales**

Net sales were \$2,838.1 million for the year ended May 31, 2012, and \$2,732.2 million for the year ended May 31, 2011. The following tables provide net sales by geography and product category:

**Geography Sales Summary**

(in millions, except percentages)	Year Ended May 31, 2012	Percentage of Net Sales	Year Ended May 31, 2011	Percentage of Net Sales	Percentage Increase/ (Decrease)	
United States	\$1,713.3	60.4	% \$1,659.2	60.7	% 3.3	%
Europe	702.7	24.8	697.8	25.5	0.7	
International <sup>(1)</sup>	422.1	14.8	375.2	13.8	12.5	
Total	\$2,838.1	100.0	% \$2,732.2	100.0	% 3.9	%

(1) International primarily includes Canada, South America, Mexico, and the Asia Pacific region.

Table of Contents

## Product Category Summary

(in millions, except percentages)	Year Ended May 31, 2012 <sup>(1)</sup>	Percentage of Net Sales	Year Ended May 31, 2011 <sup>(1)</sup>	Percentage of Net Sales	Percentage Increase/ (Decrease)	
Large Joint Reconstructive	\$1,698.8	59.9	% \$1,630.6	59.7	% 4.2	%
Sports, Extremities, Trauma (S.E.T.)	361.6	12.7	319.8	11.7	13.1	
Spinal & Bone Healing	306.8	10.8	319.9	11.7	(4.1)	)
Dental	267.7	9.4	269.5	9.9	(0.7)	)
Other	203.2	7.2	192.4	7.0	5.6	
Total	\$2,838.1	100.0	% \$2,732.2	100.0	% 3.9	%

(1) New product categories were adopted in order to more closely represent the way we report sales and market products. Certain amounts have been reclassified to conform to the current presentation.

## Large Joint Reconstructive

Net sales of large joint reconstructive products for the year ended May 31, 2012 were \$1,698.8 million, or 59.9% of net sales, representing a 4.2% increase compared to net sales of \$1,630.6 million, or 59.7% of net sales, during the year ended May 31, 2011.

Knee product sales increased 3.0% worldwide and increased 0.9% in the United States during the year ended May 31, 2012, compared to the year ended May 31, 2011. The worldwide knee sales growth was primarily due to increased sales in Europe and our International countries. Europe knee sales increased primarily due to sales growth of primary and revision components of our Vanguard<sup>®</sup> Knee, as well as demand for the Orthopaedic Salvage System. Knee sales grew in our International countries principally from increased demand for our Vanguard<sup>®</sup> Complete Knee System. Worldwide knee sales growth was partially offset by decreased partial knee sales. We believe partial knee sales have declined due to macroeconomic conditions impacting patients and competitive activities with partial knee product offerings in the market place the last several years.

Hip product sales increased 5.9% worldwide and 6.4% in the United States during the year ended May 31, 2012, compared to the year ended May 31, 2011. We believe the sales increase was primarily driven by the strong market acceptance of the new Arcos<sup>®</sup> Modular Femoral Revision System, our Taperloc<sup>®</sup> Complete Hip Stem, E1<sup>®</sup> Antioxidant Infused Acetabular Liners and the new Active Articulation<sup>™</sup> Hip System. Our worldwide hip sales growth was impacted by the industry-wide erosion of metal-on-metal hip sales.

Sales of bone cement and other reconstructive products increased 4.9% worldwide and 8.3% in the United States during the year ended May 31, 2012, compared to the year ended May 31, 2011. Sales of Cobalt<sup>™</sup> Bone Cement with Gentamicin, the Optipac<sup>™</sup> Pre-packed Vacuum Mixing System (not available in the U.S.) and our StageOne<sup>™</sup> Hip and Knee Cement Spacer Molds, particularly the StageOne<sup>™</sup> Select Modular Hip Spacer Molds, contributed to our sales growth in the bone cement and other reconstructive product category.

## S.E.T.

Worldwide net sales of S.E.T. products for the year ended May 31, 2012 were \$361.6 million, or 12.7% of net sales, representing a 13.1% increase compared to net sales of \$319.8 million, or 11.7% of net sales, during the year ended May 31, 2011.

Sports medicine sales increased 18.4% worldwide, with a 12.3% sales increase in the United States, during the year ended May 31, 2012, compared to the year ended May 31, 2011. The primary contributor of sales growth was the Juggerknot<sup>™</sup> Soft Anchor due to increased volumes from strong market acceptance. During the fourth fiscal quarter, we completed the commercial launch of the Juggerknot<sup>™</sup> Short Soft Anchor used for foot and ankle repair, which also contributed to the growth.

Extremity product sales increased 18.1% worldwide and 21.6% in the United States during the year ended May 31, 2012, compared to the year ended May 31, 2011. The Comprehensive<sup>®</sup> Primary and Reverse Shoulder Systems continued to drive strong sales growth for the extremity product category. During the fourth fiscal quarter we

launched a couple of line extensions, including a small base plate for the reverse shoulder and E1<sup>®</sup> bearings which contributed to our extremity sales.

55

---

Table of Contents

Trauma product sales decreased 2.0% worldwide, with a 3.8% sales decrease in the United States, during the year ended May 31, 2012, compared to the year ended May 31, 2011. External fixation sales declined due to a continued market shift from external fixation to internal fixation products and competitive pressures, partially offset by increased internal fixation sales. The increased internal fixation sales were primarily due to sales growth for the OptiLock® VL Distal Radius Plating System, the OptiLock® Humeral Plating System, and the Phoenix™ Ankle Arthrodesis Nail System.

**Spine & Bone Healing**

Worldwide net sales of spine & bone healing products for the year ended May 31, 2012 were \$306.8 million, or 10.8% of net sales, representing a 4.1% decrease compared to net sales of \$319.9 million, or 11.7% of net sales, for the year ended May 31, 2011. We believe the spine market continued to be affected by mid-single-digit price erosion, soft volumes due to the general economy, a challenging reimbursement environment for some fusion procedures, and a trend toward physician-owned distributorships.

Spine product sales decreased 2.8% worldwide and 3.3% in the United States during the year ended May 31, 2012, compared to the year ended May 31, 2011.

Sales of bone healing products decreased 7.7% worldwide and 7.6% in the United States during the year ended May 31, 2012, compared to the year ended May 31, 2011.

**Dental**

Worldwide net sales of dental products for the year ended May 31, 2012 were \$267.7 million, or 9.4% of net sales, representing a 0.7% decrease compared to net sales of \$269.5 million, or 9.9% of net sales, during the year ended May 31, 2011. The decreased dental sales were primarily due to weakness in the European market due to the economic uncertainty in the regions where we currently have the largest market share, which were partially offset by sales growth in the U.S. driven, in part, by increased average selling prices.

**Other**

Worldwide net sales of other products for the year ended May 31, 2012 were \$203.2 million, or 7.2% of net sales, representing a 5.6% increase compared to net sales of \$192.4 million, or 7.0% of net sales, during the year ended May 31, 2011. Our microfixation product sales increased both worldwide and in the United States during fiscal year 2012, and were partially offset by a decrease in sales of autologous therapies.

**Gross Profit**

Gross profit for the year ended May 31, 2012 increased to \$1,943.7 million, compared to gross profit for the year ended May 31, 2011 of \$1,893.5 million, or 68.5% and 69.3% of net sales, respectively. Gross profit as a percentage of net sales decreased primarily as a result of a decrease in average selling prices and unfavorable manufacturing variances due to lower production volumes.

**Selling, General and Administrative Expense**

Selling, general and administrative expense for the year ended May 31, 2012 and May 31, 2011 was \$1,053.3 million and \$1,041.7 million, respectively, or 37.1% and 38.1% of net sales, respectively. The expense increased during the year ended May 31, 2012 primarily due to our ability to leverage costs, operational restructuring and costs related to settlement of the FCPA investigation as compared to the year ended May 31, 2011, which were partially offset by a legal settlement related to the Heraeus litigation.

**Research and Development Expense**

Research and development expense during the year ended May 31, 2012 and May 31, 2011 was \$126.8 million and \$119.4 million, respectively, or 4.5% and 4.4% of net sales, respectively. The slight increase in research and development expense for the year ended May 31, 2012 primarily related to our ongoing commitment to increase investment in clinical research and regulatory affairs within our business. Our principal research and development efforts relate to primary and revision large joint reconstructive devices, S.E.T. products, spinal products, dental products, resorbable technologies, biomaterial products and autologous therapies.

Table of Contents

## Amortization

Amortization expense for the year ended May 31, 2012 was \$327.2 million, or 11.5% of net sales, compared to \$367.9 million for the year ended May 31, 2011, or 13.5% of net sales. This decrease was primarily due to the intangible asset impairment charge taken in the fourth quarter of fiscal 2012 related to our spine & bone healing and dental reconstructive reporting units and the intangible asset impairment charge taken in the fourth quarter of fiscal 2011 related to our Europe business, both described below.

## Goodwill and Intangible Assets Impairment Charge

During the fourth quarter of fiscal 2012, we recorded a \$529.8 million goodwill and definite and indefinite-lived intangible assets impairment charge primarily related to our spine & bone healing and dental reconstructive reporting units, due primarily to evidence of declining industry market growth rates in certain European and Asia Pacific markets and unfavorable margin trends resulting from changes in product mix in our dental reconstructive reporting unit and growth rate declines as compared to the original purchase accounting assumptions at the time of the Merger for our spine & bone healing reporting unit. During the fourth quarter of fiscal 2011, we recorded a \$941.4 million goodwill and definite and indefinite-lived intangible assets impairment charge primarily related to our Europe business due to the continued market slowdown in Europe relative to our original purchase accounting assumptions at the time of the Merger due to the continued financial and credit challenges in some European countries, which continue to impact our sales growth.

## Interest Expense

Interest expense was \$479.8 million for the year ended May 31, 2012, compared to interest expense of \$498.9 million for the year ended May 31, 2011. The change in interest expense was primarily due to a lower average interest rate on our term loan facilities as our interest rate swaps continue to mature, moving more of our term loan facilities from fixed to floating rate debt.

## Other (Income) Expense

Other (income) expense was expense of \$17.6 million for the year ended May 31, 2012, compared to income of \$11.2 million for the year ended May 31, 2011. The decrease is primarily due to an other-than-temporary impairment that was recorded on the Greek bonds of \$20.1 million for the year ended May 31, 2012 and \$7.1 million of expense was due to revaluation of our foreign cash accounts.

## Benefit from Income Taxes

The effective income tax rate was 22.3% for the year ended May 31, 2012 compared to 20.2% for the year ended May 31, 2011. The primary factor in determining the effective tax rate is the mix of various jurisdictions in which profits have to be earned and taxed. The effective tax rate was also impacted by non-deductible goodwill impairment. In fiscal 2012 and fiscal 2011, \$291.9 million and \$422.8 million of goodwill impairment charges, respectively, were treated as non-deductible permanent differences and contributed significantly to the effective tax rate being lower than U.S. statutory tax rates. Other items impacting the effective tax rate for the year ended May 31, 2012 include decreases due to income inclusions related to U.S. anti-deferral provisions and updated assertions regarding the permanent reinvestment of earnings of foreign operations, offset by settlements relating to uncertain tax benefits and changes in statutory tax rates (particularly in the United Kingdom). The May 31, 2011 effective tax rate was decreased due to an increase in valuation allowance relating to state and foreign net operating loss carryforwards and an increase in liabilities for uncertain tax benefits, offset by reductions to the company's state effective tax rate (primarily due to New Jersey's change to single-sales factor) as well as the reduction in United Kingdom corporate tax rates.

Non-GAAP Financial Measures<sup>(1)</sup>

## Adjusted Net Income

Adjusted Net Income increased to \$251.8 million for the year ended May 31, 2012 compared to \$205.2 million for the year ended May 31, 2011, or 8.9% and 7.5% of net sales, respectively. The \$46.6 million improvement in adjusted net income was impacted favorably by \$19.5 million of additional operating income. On a percentage of net sales basis, adjusted net income was unfavorably impacted by lower gross profit partially offset by lower selling, general & administrative and research and development expense. Interest expense was lower by \$19.1



Table of Contents

million or .7% of net sales due to a lower average interest rate on our term loan facilities as our interest rate swaps continue to mature, moving more of our term loan facilities from fixed to floating rate debt. The effective tax rate attributable to Adjusted Net Income decreased to 28.0% for the year ended May 31, 2012 from 41.4% for the year ended May 31, 2011. The effective tax rate decreased as a result of the impact of supply chain improvements on the mix of various jurisdictions in which profits were earned and taxed.

**Adjusted EBITDA**

Adjusted EBITDA increased to \$1,031.1 million for the year ended May 31, 2012 compared to \$1,010.4 million for the year ended May 31, 2011, or 36.3% and 37.0% of net sales, respectively. Gross profit decreased Adjusted EBITDA as a percentage of net sales primarily as a result of a decrease in average selling prices and unfavorable manufacturing variances due to lower production volumes. Selling, general & administrative expense increased Adjusted EBITDA as a percentage of net sales due to our ability to leverage costs and due to lower costs. A slight increase in research and development expense decreased Adjusted EBITDA as a percentage of net sales.

(1) See "Non-GAAP Financial Information" at the end of this item for a reconciliation of non-GAAP financial measures.

**Liquidity and Capital Resources**

For the Years Ended May 31, 2013, 2012 and 2011

The following is a summary of the cash flows by activity for the years ended May 31, 2013, 2012 and 2011:

(in millions)	Year Ended May 31, 2013	Year Ended May 31, 2012	Year Ended May 31, 2011
Net cash from (used in):			
Operating activities	\$468.5	\$377.3	\$380.1
Investing activities	(488.6)	) (144.0)	) (205.0)
Financing activities	(134.7)	) (38.1)	) (51.4)
Effect of exchange rate changes on cash	18.0	(30.6)	) 15.0
Change in cash and cash equivalents	\$(136.8)	) \$164.6	\$138.7

Our cash and cash equivalents were \$355.6 million as of May 31, 2013 compared to \$492.4 million as of May 31, 2012. We generally maintain our cash and cash equivalents and investments in money market funds, corporate bonds and debt instruments. Cash and cash equivalents held outside of the United States were \$320.3 million as of May 31, 2013. If we were to repatriate this cash back to the United States, additional tax of up to 35.0%, the maximum federal tax rate, could be incurred. In addition, we require a certain amount of cash to support on-going operations outside the United States.

**Operating Cash Flows**

Net cash provided by operating activities was \$468.5 million for the year ended May 31, 2013, compared to cash flows provided of \$377.3 million for the year ended May 31, 2012. Cash generated by operating activities continued to be a source of funds for deleveraging and investing in our growth. The increase in cash provided by operating activities of \$91.2 million was primarily due to cash interest savings due to our refinancing activities.

Net cash provided by operating activities was \$377.3 million for the year ended May 31, 2012, compared to cash flows provided of \$380.1 million for the year ended May 31, 2011. The decrease in cash provided by operating activities of \$2.8 million was primarily due to an increase in cash paid for taxes due to net operating losses being fully utilized in the United States and an increase in accounts receivable due to increased sales with an increase in days sales outstanding, which was offset by favorability in inventory and accounts payable.

**Investing Cash Flows**

Net cash used in investing activities was \$488.6 million for the year ended May 31, 2013 and \$144.0 million for the year ended May 31, 2012. The investing cash flow decrease was primarily due to the Trauma Acquisition purchase price of \$280.0 million and an increase in capital expenditures of \$24.7 million during the year ended May 31, 2013, as compared to the year ended May 31, 2012. Additionally, during the year ended May 31, 2012 we received proceeds from the sales/maturities of investments of \$42.0 million primarily related to the sale of a time deposit.





Table of Contents

Net cash used in investing activities was \$144.0 million for the year ended May 31, 2012 and \$205.0 million for the year ended May 31, 2011. The decrease in cash used in investing activities year-over-year was primarily related to the investment in time deposits. During the fiscal year ended May 31, 2011 we invested in \$78.7 million in time deposits and received proceeds of \$44.3 million also related to the time deposits. During the fiscal year ended May 31, 2012 we received \$33.4 million in proceeds related to the time deposits, but did not make any additional investments.

**Financing Cash Flows**

Net cash used in financing activities was \$134.7 million for the year ended May 31, 2013, compared to \$38.1 million for the year ended May 31, 2012. The difference was primarily related to the refinancing activities. We received proceeds of \$3,396.2 million related to the offerings of our 6.500% senior notes due 2020 and 6.500% senior subordinated notes due 2020 and term loans and tendered or retired \$3,423.0 million of senior notes due 2017 and term loans. Additionally, we incurred \$79.0 million of fees related to the refinancing activities.

Net cash used in financing activities was \$38.1 million for the year ended May 31, 2012, compared to \$51.4 million for the year ended May 31, 2011. The decrease in cash used in financing activities year-over-year was primarily related to a discretionary repurchase of \$10.0 million par value of senior cash pay notes for \$11.2 million in the fiscal year ended May 31, 2011.

**Balance Sheet Metrics**

Cash flows from operations are impacted by profitability and changes in operating working capital. Management monitors operating working capital with particular focus on certain metrics, including days sales outstanding (“DSO”) and inventory turns. The following is a summary of our DSO and inventory turns for the fiscal years ended May 31, 2013 and 2012.

	May 31, 2013	May 31, 2012
Days Sales Outstanding <sup>(1)</sup>	61.2	62.5
Inventory Turns <sup>(2)</sup>	1.71	1.59

---

(1) DSO is calculated by dividing the year-over-year average accounts receivable balance by the last twelve months net sales multiplied by 365 days.

(2) Inventory turns are calculated by dividing the last twelve months cost of sales by the year-over-year average net inventory balance.

We use DSO as a measure that places emphasis on how quickly we collect our accounts receivable balances from customers. The decrease in DSOs is due primarily driven by a successful repayment program in Spain and increased emphasis on faster collections in our shared services center. We use inventory turns as a measure that places emphasis on how quickly we turn over our inventory. Inventory turns improved at May 31, 2013 due to certain product rationalization efforts. These measures may not be computed the same as similarly titled measures used by other companies.

**Non-GAAP Disclosures**

We use certain non-GAAP financial measures to evaluate our performance using information that differs from what is required under GAAP. These non-GAAP financial measures may not be comparable to similar measures reported by other companies and should be considered in addition to, and not as a substitute for, or superior to, other measures prepared in accordance with GAAP.

Table of Contents

## Special Items

For the Years Ended May 31, 2013, 2012 and 2011

Year Ended May 31, 2013

(in millions)	Cost of Sales	Selling, general and administrative expense	Research and development expense	Amortization	Goodwill and intangible assets impairment charge	Other (income) expense	Total
Purchase accounting <sup>(1)</sup>	\$3.1	\$—	\$—	\$299.6	\$—	\$—	\$302.7
Stock-based compensation <sup>(2)</sup>	2.4	31.2	6.0	—	—	—	39.6
Certain litigation <sup>(3)</sup>	42.9	15.0	—	—	—	—	57.9
Trauma Acquisition <sup>(4)</sup>	2.9	9.3	—	—	—	—	12.2
Operational restructuring <sup>(5)</sup>	19.6	10.0	1.1	—	—	—	30.7
Product rationalization <sup>(6)</sup>	23.1	—	—	—	—	—	23.1
Sponsor fee <sup>(7)</sup>	—	11.0	—	—	—	—	11.0
Asset impairment <sup>(8)</sup>	—	—	—	—	567.4	—	567.4
Special items, from operations	\$94.0	\$76.5	\$7.1	\$299.6	\$567.4	\$—	\$1,044.6
Loss on extinguishment of debt <sup>(9)</sup>	—	—	—	—	—	171.1	171.1
Other <sup>(10)</sup>	—	—	—	—	—	9.6	9.6
Special items, pre-tax	\$94.0	\$76.5	\$7.1	\$299.6	\$567.4	\$180.7	\$1,225.3
Tax effect	—	—	—	—	—	—	233.9
Special items, after tax	\$94.0	\$76.5	\$7.1	\$299.6	\$567.4	\$180.7	\$991.4

Year Ended May 31, 2012

(in millions)	Cost of Sales	Selling, general and administrative expense	Research and development expense	Amortization	Goodwill and intangible assets impairment charge	Total
Purchase accounting <sup>(1)</sup>	\$10.8	\$—	\$—	\$314.8	\$—	\$325.6
Stock-based compensation <sup>(2)</sup>	0.8	13.2	2.0	—	—	16.0
Certain litigation <sup>(3)</sup>	3.3	5.3	—	—	—	8.6
Trauma Acquisition <sup>(4)</sup>	0.2	4.4	—	—	—	4.6
Operational restructuring <sup>(5)</sup>	33.0	12.6	0.2	—	—	45.8
Sponsor fee <sup>(7)</sup>	—	10.3	—	—	—	10.3
Asset impairment <sup>(8)</sup>	—	—	—	—	529.8	529.8
Special items, pre-tax	\$48.1	\$45.8	\$2.2	\$314.8	\$529.8	\$940.7
Tax effect	—	—	—	—	—	230.1
Special items, after tax	\$48.1	\$45.8	\$2.2	\$314.8	\$529.8	\$710.6

Table of Contents