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BIOMET INC  
Form 10-Q  
April 14, 2003

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 28, 2003.

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 0-12515.

BIOMET, INC.  
(Exact name of registrant as specified in its charter)

Indiana  
(State or other jurisdiction of  
incorporation or organization)

35-1418342  
(I.R.S. Employer  
Identification No.)

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

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

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

As of February 28, 2003, the registrant had 258,000,777 common shares  
outstanding.

BIOMET, INC.

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### PART I. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

##### BIOMET, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
at February 28, 2003 and May 31, 2002  
(in thousands)

#### ASSETS

|   | February 28,<br>2003 | May 31,<br>2002 |
|---|----------------------|-----------------|
|   | -----                | -----           |
|   | (Unaudited)          |                 |
| Current assets:   |                      |                 |
| Cash and cash equivalents   | \$ 167,777           | \$ 154,297      |
| Investments   | 38,251               | 30,973          |
| Accounts and notes receivable, net                                      | 412,904              | 365,148         |
| Inventories   | 363,805              | 335,348         |
| Deferred income taxes   | 48,574               | 49,523          |
| Prepaid expenses and other  | 20,065               | 17,655          |
|   | -----                | -----           |
| Total current assets  | 1,051,376            | 952,944         |
|   | -----                | -----           |
| Property, plant and equipment, at cost                                  | 452,734              | 389,454         |
| Less, Accumulated depreciation  | 208,738              | 170,393         |
|   | -----                | -----           |
| Property, plant and equipment, net                                      | 243,996              | 219,061         |
|   | -----                | -----           |
| Investments   | 133,324              | 201,247         |
| Intangible assets, net  | 11,995               | 8,532           |
| Excess acquisition costs over fair value<br>of acquired net assets, net | 125,511              | 125,157         |
| Other assets  | 13,408               | 14,782          |
|   | -----                | -----           |
| Total assets  | \$1,579,610          | \$1,521,723     |
|   | =====                | =====           |

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

### BIOMET, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
at February 28, 2003 and May 31, 2002  
(in thousands)

#### LIABILITIES AND SHAREHOLDERS' EQUITY

|  | February 28,<br>2003 | May 31,<br>2002 |
|--|----------------------|-----------------|
|  | -----                | -----           |
|  | (Unaudited)          |                 |
| Current liabilities:                       |                      |                 |
| Short-term borrowings                      | \$ 115,556           | \$ 90,467       |
| Accounts payable                           | 28,758               | 36,318          |
| Accrued income taxes                       | 3,191                | 17,483          |
| Accrued wages and commissions              | 37,300               | 35,106          |
| Accrued litigation                         | --                   | 5,864           |
| Other accrued expenses                     | 57,296               | 52,461          |
|  | -----                | -----           |
| Total current liabilities                  | 242,101              | 237,699         |
| Long-term liabilities:                     |                      |                 |
| Deferred income taxes                      | 3,029                | 3,332           |
| Other liabilities                          | 378                  | 406             |
|  | -----                | -----           |
| Total liabilities                          | 245,508              | 241,437         |
| Minority interest                          | 108,817              | 103,807         |
|  | -----                | -----           |
| Contingencies (Note 7)                     |                      |                 |
| Shareholders' equity:                      |                      |                 |
| Common shares                              | 134,990              | 124,417         |
| Additional paid-in capital                 | 48,360               | 48,868          |
| Retained earnings                          | 1,054,051            | 1,054,020       |
| Accumulated other comprehensive loss       | (12,116)             | (50,826)        |
|  | -----                | -----           |
| Total shareholders' equity                 | 1,225,285            | 1,176,479       |
| Total liabilities and shareholders' equity | \$1,579,610          | \$1,521,723     |
|  | =====                | =====           |

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

### BIOMET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
for the nine and three month periods ended February 28, 2003 and 2002  
(Unaudited, in thousands, except per share data)

|           | Nine Months Ended |           | Three Months Ended |           |
|-----------|-------------------|-----------|--------------------|-----------|
|           | -----             | -----     | -----              | -----     |
|           | 2003              | 2002      | 2003               | 2002      |
|           | ----              | ----      | ----               | ----      |
| Net sales | \$1,013,090       | \$866,018 | \$354,042          | \$304,609 |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Cost of sales  | 296,378   | 241,664   | 107,636   | 85,238    |
|  | -----     | -----     | -----     | -----     |
| Gross profit   | 716,712   | 624,354   | 246,406   | 219,371   |
| Selling, general and<br>administrative expenses          | 365,126   | 320,846   | 127,990   | 112,851   |
| Research and development expense                         | 40,262    | 35,845    | 14,555    | 12,190    |
|  | -----     | -----     | -----     | -----     |
| Operating income   | 311,324   | 267,663   | 103,861   | 94,330    |
| Other income, net  | 15,947    | 11,807    | 9,145     | 2,872     |
|  | -----     | -----     | -----     | -----     |
| Income before income taxes and<br>minority interest      | 327,271   | 279,470   | 113,006   | 97,202    |
| Provision for income taxes                               | 113,307   | 94,800    | 39,169    | 32,924    |
|  | -----     | -----     | -----     | -----     |
| Income before minority interest                          | 213,964   | 184,670   | 73,837    | 64,278    |
| Minority interest  | 5,010     | 5,531     | 1,243     | 2,604     |
|  | -----     | -----     | -----     | -----     |
| Net income   | \$208,954 | \$179,139 | \$ 72,594 | \$ 61,674 |
|  | =====     | =====     | =====     | =====     |
| Earnings per share:                                      |           |           |           |           |
| Basic  | \$.80     | \$.66     | \$.28     | \$.23     |
|  | =====     | =====     | =====     | =====     |
| Diluted  | \$.80     | \$.66     | \$.28     | \$.23     |
|  | =====     | =====     | =====     | =====     |
| Shares used in the computation<br>of earnings per share: |           |           |           |           |
| Basic  | 259,895   | 269,554   | 257,929   | 269,388   |
|  | =====     | =====     | =====     | =====     |
| Diluted  | 261,597   | 272,543   | 259,824   | 272,265   |
|  | =====     | =====     | =====     | =====     |
| Cash dividends per common share                          | \$.10     | \$.09     | \$ --     | \$ --     |
|  | =====     | =====     | =====     | =====     |

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

BIOMET, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
for the nine months ended February 28, 2003 and 2002  
(Unaudited, in thousands)

|  | 2003      | 2002      |
|--|-----------|-----------|
|  | ----      | ----      |
| Cash flows from (used in) operating activities:                                  |           |           |
| Net income   | \$208,954 | \$179,139 |
| Adjustments to reconcile net income to<br>net cash from operating activities:    |           |           |
| Depreciation   | 31,003    | 25,509    |
| Amortization   | 2,608     | 9,087     |
| Gain on sale of investments, net   | (153)     | (300)     |
| Minority interest  | 5,010     | 5,531     |
| Deferred income taxes  | 646       | 4,050     |
| Changes in current assets and liabilities,<br>excluding effects of acquisitions: |           |           |
| Accounts and notes receivable, net   | (32,675)  | (13,421)  |
| Inventories  | (2,146)   | (40,138)  |
| Prepaid expenses and other   | 3,749     | 4,642     |
| Accounts payable   | (8,376)   | 10,441    |
| Accrued income taxes   | (17,173)  | (9,712)   |

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|   |           |           |
|---|-----------|-----------|
| Accrued wages and commissions                     | 2,194     | (1,726)   |
| Other accrued liabilities                         | (9,263)   | (27,334)  |
|   | -----     | -----     |
| Net cash from operating activities                | 184,378   | 145,768   |
|   | -----     | -----     |
| Cash flows from (used in) investing activities:   |           |           |
| Proceeds from sales and maturities of investments | 104,717   | 87,728    |
| Purchases of investments                          | (43,899)  | (111,496) |
| Capital expenditures                              | (41,766)  | (45,142)  |
| Acquisitions, net of cash acquired                | --        | (6,735)   |
| Other   | (4,178)   | (885)     |
|   | -----     | -----     |
| Net cash from (used in) investing activities      | 14,874    | (76,530)  |
|   | -----     | -----     |
| Cash flows from (used in) financing activities:   |           |           |
| Increase in short-term borrowings, net            | 6,655     | 18,012    |
| Issuance of common shares                         | 13,897    | 13,896    |
| Cash dividends                                    | (26,431)  | (24,268)  |
| Purchase of common shares                         | (187,115) | (76,215)  |
|   | -----     | -----     |
| Net cash used in financing activities             | (192,994) | (68,575)  |
|   | -----     | -----     |
| Effect of exchange rate changes on cash           | 7,222     | (56)      |
|   | -----     | -----     |
| Increase in cash and cash equivalents             | 13,480    | 607       |
| Cash and cash equivalents, beginning of year      | 154,297   | 235,091   |
|   | -----     | -----     |
| Cash and cash equivalents, end of period          | \$167,777 | \$235,698 |
|   | =====     | =====     |

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

BIOMET, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1: BASIS OF PRESENTATION.

The accompanying consolidated financial statements include the accounts of Biomet, Inc. and its subsidiaries (individually and collectively referred to as the "Company"). The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended February 28, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2003. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2002.

The accompanying consolidated balance sheet at May 31, 2002, has been derived from the audited Consolidated Financial Statements at that date, but does not include all disclosures required by accounting principles generally accepted in the United States.

The Company operates in one business segment, musculoskeletal products, which includes the designing, manufacturing and marketing of reconstructive products, fixation devices, spinal products and other products. Other products consist

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primarily of Arthrotek's arthroscopy products, EBI's softgoods and bracing products, general instruments and operating room supplies. The Company manages its business segment primarily on a geographic basis. These geographic markets are comprised of the United States, Europe and other. The other geographic market include Canada, South America, Mexico, Japan and the Pacific Rim.

Net sales of musculoskeletal products by product category are as follows for the nine and three month periods ended February 28:

|                 | Nine Months Ended |           | Three Months Ended |           |
|-----------------|-------------------|-----------|--------------------|-----------|
|                 | 2003              | 2002      | 2003               | 2002      |
|                 | -----             |           |                    |           |
|                 | (in thousands)    |           |                    |           |
| Reconstructive  | \$ 626,192        | \$520,831 | \$222,253          | \$184,765 |
| Fixation        | 176,869           | 160,430   | 59,061             | 53,548    |
| Spinal products | 105,620           | 89,609    | 36,157             | 32,458    |
| Other           | 104,409           | 95,148    | 36,571             | 33,838    |
|                 | -----             | -----     | -----              | -----     |
|                 | \$1,013,090       | \$866,018 | \$354,042          | \$304,609 |
|                 | =====             | =====     | =====              | =====     |

### NOTE 2: COMPREHENSIVE INCOME.

Other comprehensive income includes foreign currency translation adjustments and unrealized appreciation (depreciation) of available-for-sale securities, net of taxes. Other comprehensive income (loss) for the three months ended February 28, 2003 and 2002 was \$22,034,000 and \$(5,707,000), respectively. Other comprehensive income for the nine months ended February 28, 2003 and 2002 was \$38,710,000 and \$(4,039,000), respectively. Total comprehensive income combines reported net income and other comprehensive income. Total comprehensive income for the three months ended February 28, 2003 and 2002 was \$94,628,000 and \$55,967,000, respectively. Total comprehensive income for the nine months ended February 28, 2003 and 2002 was \$247,664,000 and \$175,100,000, respectively.

### NOTE 3: INVENTORIES.

Inventories at February 28, 2003 and May 31, 2002 are as follows:

|                     | February 28,<br>2003 | May 31,<br>2002 |
|---------------------|----------------------|-----------------|
|                     | -----                |                 |
|                     | (in thousands)       |                 |
| Raw materials       | \$ 37,346            | \$ 35,036       |
| Work-in-process     | 37,668               | 45,476          |
| Finished goods      | 149,038              | 135,842         |
| Consigned inventory | 139,753              | 118,994         |
|                     | -----                | -----           |
|                     | \$363,805            | \$335,348       |
|                     | =====                | =====           |

### NOTE 4: COMMON SHARES.

During the nine months ended February 28, 2003, the Company issued 1,360,585 Common Shares upon the exercise of outstanding stock options for proceed aggregating \$13,897,000. Purchases of Common Shares pursuant to the Common Share Repurchase Programs aggregated 7,010,978 shares for \$187,115,000 during the nine months ended February 28, 2003.

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### NOTE 5: EARNINGS PER SHARE.

Earnings per common share amounts ("basic EPS") are computed by dividing net income by the weighted average number of common shares outstanding and excludes any potential dilution. Earnings per common share amounts assuming dilution ("diluted EPS") are computed by reflecting potential dilution from the exercise of stock options.

### NOTE 6: INCOME TAXES.

The difference between the reported provision for income taxes and a provision computed by applying the federal statutory rate to pre-tax accounting income is primarily attributable to state income taxes, tax benefits relating to operations in Puerto Rico, tax-exempt income and tax credits.

### NOTE 7: CONTINGENCIES.

In January 1996, a jury returned a verdict in a patent infringement matter against the Company and in favor of Raymond G. Tronzo ("Tronzo"), which in August 1998 was subsequently reversed and vacated by the United States Court of Appeals for the Federal Circuit (the "Federal Circuit"). The Federal Circuit then remanded the case to the District Court for the Southern District of Florida (the "District Court") for further consideration on state law claims only. On August 27, 1999, the District Court entered a final judgment of \$53,530 against the Company. Tronzo then appealed the District Court's final judgment with the Federal Circuit and in January 2001 the Federal Circuit reinstated a \$20 million punitive damages award against the Company while affirming the compensatory damage award of \$520. The Federal Circuit's decision was based principally on procedural grounds, and in March 2001 it denied the Company's combined petition for panel rehearing petition and petition for rehearing en banc. On November 13, 2001 the United States Supreme Court ("Supreme Court") denied the Company's petition to review the \$20 million punitive damage award against the Company given to Tronzo. The Company had previously recorded a charge during the third quarter of fiscal 2001 of \$26.1 million, which represented the total damage award plus the maximum amount of interest that, as calculated by the Company, could have been due under the award and related expenses. The Company paid \$20,236,000 out of escrow. On February 12, 2003 the Federal Circuit ruled that the Company does not owe post-judgment interest in connection with the damage award in this case. As a result of this favorable ruling, the Company has recorded a pre-tax gain of approximately \$5.8 million in this quarter, and management considers this matter fully concluded.

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

### NOTE 8: RECENT ACCOUNTING PRONOUNCEMENTS.

In June of 2001 the Financial Accounting Standards Board (FASB) approved the issuance of Statement 142, "Goodwill and Other Intangible Assets". FASB Statement 142, among other things, requires that goodwill not be amortized but should be tested for impairment at least annually. The Company adopted this statement during the first quarter of fiscal 2003 by discontinuing the

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amortization of goodwill totaling \$1.8 million per quarter (\$1.6 million net of tax). In addition, the Company was required to review its goodwill during the first six months for possible impairment. Based on the Company's review, no impairment charges have been recorded. The following tables show the reported net income and earnings per share for the three and nine month periods ended February 28, 2002, reconciles them to the adjusted net income and earnings per share had the nonamortization provisions of Statement 142 been applied in that period and compares them to the three and nine month periods ended February 28, 2003:

|                                     | Nine Months Ended                     |           | Three Months Ended |           |
|-------------------------------------|---------------------------------------|-----------|--------------------|-----------|
|                                     | 2003                                  | 2002      | 2003               | 2002      |
|                                     | (in thousands, except per share data) |           |                    |           |
| Reported net income                 | \$208,954                             | \$179,139 | \$ 72,594          | \$ 61,674 |
| Effect of goodwill amortization     | --                                    | 4,800     | --                 | 1,600     |
| As adjusted                         | \$208,954                             | \$183,939 | \$ 72,594          | \$ 63,274 |
| Reported earnings per share         | \$ .80                                | \$ .66    | \$ .28             | \$ .23    |
| Effect of goodwill amortization     | --                                    | .02       | --                 | --        |
| As adjusted                         | \$ .80                                | \$ .68    | \$ .28             | \$ .23    |
| Reported diluted earnings per share | \$ .80                                | \$ .66    | \$ .28             | \$ .23    |
| Effect of goodwill amortization     | --                                    | .01       | --                 | --        |
| As adjusted                         | \$ .80                                | \$ .67    | \$ .28             | \$ .23    |

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### FINANCIAL CONDITION AS OF February 28, 2003

The Company's cash and investments decreased \$47,165,000 to \$339,352,000 at February 28, 2003. This decrease resulted from the \$26,431,000 dividend paid during the first quarter and the \$187,115,000 used to purchase shares during the first nine months pursuant to the share repurchase programs, offset by positive cash flow from operations.

Cash flows provided by operating activities were \$184,378,000 for the first nine months of fiscal 2003 compared to \$145,768,000 in 2002. The primary sources of fiscal year 2003 cash flows from operating activities were net income and depreciation. The primary uses were increases in accounts receivable and a reduction in accrued income taxes and other accrued liabilities. Over the last several quarters, the Company has experienced a greater sales growth from its insurance billings verses its hospital billings in the United States. These insurance billings historically have had a longer collection cycle. In addition, accounts receivable continue to increase as the Company's sales grow at a rapid rate. Accounts and notes receivable and inventory balances were increased during the nine month period by \$15 million and \$26 million, respectively, due to currency exchange rates.

Cash flows from investing activities were \$14,874,000 for the first nine months of fiscal 2003 compared to a use of \$76,530,000 in 2002. The primary source of cash flows from investing activities were sales and maturities of investments offset by purchases of investments and capital equipment.



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Cash flows used in financing activities were \$192,994,000 for the first nine months of fiscal 2003 compared to a use of \$68,575,000 in 2002. The primary use of cash flows from financing activities was the cash dividend paid in the first quarter and the share repurchase program. In July 2002, the Company's Board of Directors declared a cash dividend of ten cents (\$.10) per share payable to shareholders of record at the close of business on July 8, 2002.

Currently available funds, together with anticipated cash flows generated from future operations, are believed to be adequate to cover the Company's anticipated cash requirements, including capital expenditures and research and development costs.

Pursuant to the terms of the Joint Venture Agreement with Merck KGaA ("Merck"), the Company granted Merck a put option whereby Merck has the right to elect to require the Company to purchase all, but not less than all, of Merck's interest in the BioMer C.V. ("BioMer"). Merck may exercise the put option by giving notice to the Company at any time during (a) the period beginning on May 1, 2001, and ending on May 10, 2008, or (b) a period of 180 days following receipt by Merck of notice from the Company that a "change of control" of the Company (as defined in the Joint Venture Agreement) has occurred prior to May 1, 2023. The put exercise price, which is payable in cash, is the greater of (i) a formula based on earnings of BioMer and multiples, as defined in the Joint Venture Agreement, or (ii) the net book value of all the assets of BioMer less all liabilities of BioMer multiplied by Merck's 50% ownership percentage in BioMer. The put option formula is a mechanism whereby the Company would pay a fair market purchase price for Merck's 50% ownership interest in BioMer. If Merck chooses to exercise its put option in the future, at the time of exercise the transaction could be deemed a material transaction for the Company; however, management believes that the transaction could be funded out of the Company's current operations and, given the Company's current cash position and the strength of its balance sheet, the transaction should not negatively impact the financial strength of the Company or its ongoing operations. As of the close of the Company's most recently completed fiscal quarter, the net book value purchase price of BioMer would be approximately \$106 million, which may or may not reflect the fair market purchase price at the time of closing the put transaction, should it occur.

### RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED FEBRUARY 28, 2003 AS COMPARED TO THE NINE MONTHS ENDED FEBRUARY 28, 2002

Net sales increased 17% to \$1,013,090,000 for the nine-month period ended February 28, 2003, from \$866,018,000 for the same period last year. Excluding the impact of foreign currency which increased sales for the nine months by \$22.3 million, net sales increased 14% during the first nine months of fiscal year 2003. The Company's U.S.-based revenue increased 14% to \$711,538,000 during the first nine months of fiscal 2003, while foreign sales increased 25% to \$301,552,000. Excluding the positive foreign exchange adjustment, foreign sales in local currencies increased 16%. Biomet's worldwide sales of reconstructive products during the first nine months of fiscal 2003 were \$626,192,000, representing a 20% increase compared to the first nine months of last year. This increase came through balanced growth in all of the reconstructive product categories. The Company's extensive line of reconstructive products continues to gain market share in this rapidly growing market. Sales of fixation products were \$176,869,000 for the first nine months of fiscal 2003, representing a 10% increase as compared to the same period in 2002. Sales of spinal products were \$105,620,000 for the first nine months of fiscal 2003, representing an 18% increase as compared to the same period in 2002. The increase is a result of continued market acceptance of EBI's spinal stimulation systems and the expansion of EBI's product portfolio into the hardware and biological segments of the spinal markets. The Company's sales of other products totaled \$104,409,000, representing an 10% increase over the first nine months of fiscal year

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2002, primarily as a result of increased sales of arthroscopy products and softgoods and bracing products.

Cost of sales increased as a percentage of net sales to 29.3% for the first nine months of fiscal 2003 from 27.9% for fiscal 2002. Following an internal audit, the Company recorded a \$4.2 million charge to cost of sales (representing 0.5% as a percentage of net sales) during the third quarter as a result of negative adjustments related primarily to the quantity of work-in-process inventory at our United Kingdom operations. The remaining increase in cost of sales as a percentage of net sales of 0.9% was primarily as a result of higher growth rates in foreign sales, where gross margins are lower, versus domestic sales. Selling, general and administrative expenses as a percentage of net sales decreased to 36.0% compared to 37.0% for the first nine months last year. This decrease in the percentage is a result of the Company's continued emphasis on slowing its general and administrative expense growth and adopting FASB 142 which discontinued the amortization of goodwill (\$4.8 million during the nine month period). Research and development expenditures increased during the first nine months to \$40,262,000 reflecting the Company's continued emphasis on new product introductions. Operating income rose 16% from \$267,663,000 for the first nine months of fiscal 2002, to \$311,324,000 for the first nine months of fiscal 2003. Other income increased 35%. On February 12, 2003, the United States Court of Appeals for the Federal Circuit ruled that the Company does not owe post-judgment interest in connection with the damage award paid in the Tronzo litigation. As a result of this favorable ruling, the Company has recorded a pre-tax gain of approximately \$5.8 million in this quarter. Excluding this gain, other income decreased approximately 14%. Over the last five quarters, the Company has used \$397,000,000 to purchase its common stock which has reduced investable cash. In addition, as interest rates fall, higher yielding investments are called and replaced with lower yielding investments. The effective income tax rate increased to 34.6% for the first nine months of fiscal year 2003 from 33.9% last year primarily as a result of states increasing their tax rates.

These factors resulted in a 17% increase in net income to \$208,954,000 for the first nine months of fiscal 2003 as compared to \$179,139,000 for the same period in fiscal 2002. Basic and diluted earnings per share increased 21%, from \$.66 to \$.80 for the periods presented.

### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED FEBRUARY 28, 2003 AS COMPARED TO THE THREE MONTHS ENDED FEBRUARY 28, 2002

Net sales increased 16% to \$354,042,000 for the third quarter of fiscal 2003, as compared to \$304,609,000 for the same period last year. Excluding the impact of foreign currency which increased third quarter sales by \$10.9 million, net sales increased 13% during the third quarter of fiscal year 2003. Operating income increased 10% from \$94,330,000 for the third quarter of fiscal 2002, to \$103,861,000 for the third quarter of fiscal 2003. During the third quarter, net income increased 18% to \$72,594,000 as compared to \$61,674,000 for the same period last year. Basic and diluted earnings per share increased 22% from \$.23 to \$.28 for the periods presented. The business factors resulting in these changes and relevant trends affecting the Company's business during the periods in question are comparable to those described in the preceding discussion for the nine-month period.

### Item 3. Quantitative and Qualitative Disclosures about Market Risks.

There have been no material changes from the information provided in the Company's Annual Report on Form 10-K for the year ended May 31, 2002.

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### Item 4. Controls and Procedures.

As of February 28, 2003, an evaluation was performed under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of February 28, 2003. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to February 28, 2003.

### PART II. OTHER INFORMATION

#### Item 1: Legal Proceedings.

In January 1996, a jury returned a verdict in a patent infringement matter against the Company and in favor of Raymond G. Tronzo ("Tronzo"), which in August 1998 was subsequently reversed and vacated by the United States Court of Appeals for the Federal Circuit (the "Federal Circuit"). The Federal Circuit then remanded the case to the District Court for the Southern District of Florida (the "District Court") for further consideration on state law claims only. On August 27, 1999, the District Court entered a final judgment of \$53,530 against the Company. Tronzo then appealed the District Court's final judgment with the Federal Circuit and in January 2001 the Federal Circuit reinstated a \$20 million punitive damages award against the Company while affirming the compensatory damage award of \$520. The Federal Circuit's decision was based principally on procedural grounds, and in March 2001 it denied the Company's combined petition for panel rehearing petition and petition for rehearing en banc. On November 13, 2001 the United States Supreme Court ("Supreme Court") denied the Company's petition to review the \$20 million punitive damage award against the Company given to Tronzo. The Company had previously recorded a charge during the third quarter of fiscal 2001 of \$26.1 million, which represented the total damage award plus the maximum amount of interest that, as calculated by the Company, could have been due under the award and related expenses. The Company paid \$20,236,000 out of escrow. On February 12, 2003 the Federal Circuit ruled that the Company does not owe post-judgment interest in connection with the damage award in this case. As a result of this favorable ruling, the Company has recorded a pre-tax gain of approximately \$5.8 million in this quarter, and management considers this matter fully concluded.

#### Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits. See Index to Exhibits.
- (b) Reports on Form 8-K. None.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BIOMET, INC.  
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DATE: 4/14/2003

BY: /s/ Gregory D. Hartman

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Gregory D. Hartman  
Senior Vice President - Finance  
(Principal Financial Officer)

(Signing on behalf of the registrant  
and as principal financial officer)

CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL  
OFFICER REGARDING FACTS AND CIRCUMSTANCES RELATING TO QUARTERLY REPORTS

I, Dane A. Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Biomet, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 4/14/2003  
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/s/ Dane A. Miller  
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Dane A. Miller, Ph.D.  
President and Chief Executive Officer

CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER REGARDING FACTS AND CIRCUMSTANCES RELATING TO QUARTERLY REPORTS

I, Gregory D. Hartman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Biomet, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other

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employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 4/14/2003  
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/s/ Gregory D. Hartman  
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Gregory D. Hartman  
Senior Vice President - Finance  
and Chief Financial Officer

BIOMET, INC.

FORM 10-Q

### INDEX TO EXHIBITS

| Number Assigned<br>in Regulation<br>S-K Item 601 | Exhibit No. | Description of Exhibit  |
|--|-------------|---|
| -----  |             |   |
| (2)  |             | No exhibit  |
| (4)  | 4.1         | Specimen certificate for Common Shares.<br>(Incorporated by reference to Exhibit 4.1 to the registrant's Report on Form 10-K for the fiscal year ended May 31, 1985.)   |
|  | 4.2         | Rights Agreement between Biomet, Inc. and Lake City Bank, as Rights Agent, dated as of December 16, 1999. (Incorporated by reference to Exhibit 4.01 to Biomet, Inc. Form 8-K Current Report dated December 16, 1999, Commission File No. 0-12515), as amended September 1, 2002 to change rights agent to American Stock Transfer & Trust Company. |
| (10)   | 10.1        | Joint Venture Agreement between Biomet, Inc. and Merck KGaA dated as of November 24, 1997 (Incorporated by reference to Exhibit 2.01 to Biomet, Inc. Form 8-K Current Report dated February 17, 1998, Commission File No. 0-12525).   |
| (11)   |             | No exhibit.   |
| (15)   |             | No exhibit.   |
| (18)   |             | No exhibit.   |
| (19)   |             | No exhibit.   |
| (22)   |             | No exhibit.   |
| (23)   |             | No exhibit.   |
| (24)   |             | No exhibit.   |

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- (99) 99.1 Written Statement of Chief Executive Officer  
and Chief Financial Officer Pursuant to Sections  
906 and 302 of the Sarbanes-Oxley Act of 2002.