

Edgar Filing: BIOMET INC - Form 10-Q

BIOMET INC
Form 10-Q
April 11, 2005

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, 2005.

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 X No

As of February 28, 2005, the registrant had 251,864,378 common shares
outstanding.

BIOMET, INC.

CONTENTS

Pages

Part I. Financial Information

Item 1. Financial Statements:

Consolidated Balance Sheets	1-2
Consolidated Statements of Income	3

Edgar Filing: BIOMET INC - Form 10-Q

Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5-9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10-12
Item 3. Quantitative and Qualitative Disclosure about Market Risks	13
Item 4. Controls and Procedures	13
Part II. Other Information	14
Signatures	15
Index to Exhibits	16

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BIOMET, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
at February 28, 2005 and May 31, 2004
(in thousands)

ASSETS

	February 28, 2005	May 31, 2004
	-----	-----
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 99,867	\$ 159,243
Investments	10,902	10,030
Accounts and notes receivable, net	489,467	465,949
Inventories	456,612	389,391
Deferred income taxes	79,654	69,379
Prepaid expenses and other	38,556	21,877
	-----	-----
Total current assets	1,175,058	1,115,869
	-----	-----
Property, plant and equipment, at cost	558,109	466,460
Less, Accumulated depreciation	243,392	197,634
	-----	-----
Property, plant and equipment, net	314,717	268,826
	-----	-----
Investments	61,994	66,339
Goodwill	440,896	266,860
Intangible assets, net	89,824	53,571
Other assets	15,239	16,232
	-----	-----
Total assets	\$2,097,728	\$1,787,697
	=====	=====

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

BIOMET, INC. AND SUBSIDIARIES

Edgar Filing: BIOMET INC - Form 10-Q

CONSOLIDATED BALANCE SHEETS
at February 28, 2005 and May 31, 2004
(in thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY

	February 28, 2005	May 31, 2004
	-----	-----
	(Unaudited)	
Current liabilities:		
Short-term borrowings	\$ 300,461	\$ 109,654
Accounts payable	57,771	55,365
Accrued income taxes	12,620	18,940
Accrued wages and commissions	52,594	51,288
Other accrued expenses	103,523	78,155
	-----	-----
Total current liabilities	526,969	313,402
Long-term liabilities:		
Deferred income taxes	32,346	26,085
	-----	-----
Total liabilities	559,315	339,487
	-----	-----
Contingencies (Note 9)		
Shareholders' equity:		
Common shares	184,509	167,301
Additional paid-in capital	60,908	60,344
Retained earnings	1,263,962	1,218,682
Accumulated other comprehensive income	29,034	1,883
	-----	-----
Total shareholders' equity	1,538,413	1,448,210
	-----	-----
Total liabilities and shareholders' equity	\$2,097,728	\$1,787,697
	=====	=====

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, 2005 and 2004
(Unaudited, in thousands, except per share data)

	Nine Months Ended		Three Months Ended	
	2005	2004	2005	2004
	-----	-----	-----	-----
Net sales	\$1,376,857	\$1,168,065	\$482,023	\$410,185
Cost of sales	395,155	330,400	138,068	115,992
	-----	-----	-----	-----
Gross profit	981,702	837,665	343,955	294,193
Selling, general and administrative expenses	505,989	414,773	179,224	145,712
Research and development expense	58,543	46,450	20,461	15,892
In-process research and development	26,020	--	--	--
	-----	-----	-----	-----

Edgar Filing: BIOMET INC - Form 10-Q

Operating income	391,150	376,442	144,270	132,589
Other income, net	2,157	10,260	2,641	3,570
	-----	-----	-----	-----
Income before income taxes and minority interest	393,307	386,702	146,911	136,159
Provision for income taxes	144,891	134,659	50,127	47,430
	-----	-----	-----	-----
Income before minority interest	248,416	252,043	96,784	88,729
Minority interest	--	6,273	--	2,129
	-----	-----	-----	-----
Net income	\$ 248,416	\$ 245,770	\$ 96,784	\$ 86,600
	=====	=====	=====	=====
Earnings per share:				
Basic	\$0.98	\$0.96	\$0.38	\$0.34
	=====	=====	=====	=====
Diluted	\$0.97	\$0.95	\$0.38	\$0.34
	=====	=====	=====	=====
Shares used in the computation of earnings per share:				
Basic	253,000	255,916	252,182	255,110
	=====	=====	=====	=====
Diluted	255,029	257,892	253,994	257,244
	=====	=====	=====	=====
Cash dividends per common share	\$.20	\$.15	\$ --	\$ --
	=====	=====	=====	=====

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, 2005 and 2004
(Unaudited, in thousands)

	2004	2004
	----	----
Cash flows from (used in) operating activities:		
Net income	\$248,416	\$245,770
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	45,001	38,876
Amortization	5,212	2,274
Write off of in-process research and development	26,020	--
Loss (Gain) on sale of investments, net	103	(583)
Minority interest	--	6,273
Deferred income taxes	(3,159)	(1,562)
Changes in current assets and liabilities:		
Accounts and notes receivable, net	8,774	(37,130)
Inventories	(29,136)	(2,059)
Accounts payable	(1,519)	(6,782)
Accrued income taxes	(6,318)	4,597
Other	(8,678)	4,419
	-----	-----
Net cash from operating activities	284,716	254,093
	-----	-----
Cash flows from (used in) investing activities:		
Proceeds from sales and maturities of investments	41,630	215,286
Purchases of investments	(36,607)	(106,694)
Capital expenditures	(73,396)	(42,594)
Acquisitions, net of cash acquired	(266,229)	--

Edgar Filing: BIOMET INC - Form 10-Q

Other	(3,070)	(1,587)
	-----	-----
Net cash from (used in) investing activities	(337,672)	64,411
	-----	-----
Cash flows from (used in) financing activities:		
Increase in short-term borrowings, net	183,733	(2,254)
Issuance of common shares	19,466	21,874
Cash dividends	(50,872)	(38,604)
Purchase of common shares	(155,405)	(152,020)
	-----	-----
Net cash used in financing activities	(3,078)	(171,004)
	-----	-----
Effect of exchange rate changes on cash	(3,342)	3,773
	-----	-----
Increase (decrease) in cash and cash equivalents	(59,376)	151,273
Cash and cash equivalents, beginning of year	159,243	225,650
	-----	-----
Cash and cash equivalents, end of period	\$ 99,867	\$376,923
	=====	=====

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, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2005. 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, 2004.

The accompanying consolidated balance sheet at May 31, 2004, 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 primarily of EBI's softgoods and bracing products, Arthrotek's arthroscopy products, general instruments and operating room supplies. The Company manages its business segment primarily on a geographic basis. These geographic markets are comprised of the United States, Europe and the Rest of World. Major markets included in the Rest of World geographic market are 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, 2005 and 2004:

Edgar Filing: BIOMET INC - Form 10-Q

	Nine Months Ended		Three Months Ended	
	2005	2004	2005	2004
	(in thousands)			
Reconstructive	\$ 910,087	\$ 755,726	\$326,220	\$270,203
Fixation	185,131	184,889	62,090	62,460
Spinal products	158,756	116,267	52,615	39,322
Other	122,883	111,183	41,098	38,200
	\$1,376,857	\$1,168,065	\$482,023	\$410,185
	=====	=====	=====	=====

As permitted by SFAS No. 123, the Company accounts for its employee stock options using the intrinsic value method. Accordingly, no compensation expense is recognized for the employee stock-based compensation plans. If compensation expense for the Company's employee stock options had been determined based on the fair value method of accounting, pro forma net income and diluted earnings per share for the nine and three month periods ended February 28, 2005 and 2004 would have been as follows:

	Nine Months Ended		Three Months Ended	
	2005	2004	2005	2004
Net income as reported (in thousands)	\$248,416	\$245,770	\$ 96,784	\$ 86,600
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards net of related tax effects (in thousands)	4,694	3,853	1,660	1,290
Pro forma net income (in thousands)	\$243,722	\$241,917	\$ 95,124	\$ 85,310
	=====	=====	=====	=====
Earning per share:				
Basic, as reported	\$0.98	\$0.96	\$0.38	\$0.34
	=====	=====	=====	=====
Basic, pro forma	\$0.96	\$0.95	\$0.38	\$0.33
	=====	=====	=====	=====
Diluted, as reported	\$0.97	\$0.95	\$0.38	\$0.34
	=====	=====	=====	=====
Diluted, pro forma	\$0.96	\$0.94	\$0.37	\$0.33
	=====	=====	=====	=====

On December 16, 2004, the FASB finalized SFAS No. 123R "Share-Based Payment," which will be effective for interim or annual reporting periods beginning after June 15, 2005. The new standard will require us to expense stock options and the FASB believes the use of a binomial lattice model for option valuation is capable of more fully reflecting certain characteristics of employee share options. The Company has begun a process to analyze how the utilization of a binomial lattice model could impact the valuation of our options. The effect of expensing stock options on our results of operations using the Black-Scholes model is presented in the table above.

NOTE 2: BUSINESS COMBINATION.

On June 18, 2004, the Company, through its EBI subsidiary, acquired Interpore International, Inc. ("Interpore") for \$270.5 million in cash. The primary reason for making the Interpore acquisition was to broaden the product portfolio the Company offers in the spinal market. The Company accounted for

Edgar Filing: BIOMET INC - Form 10-Q

this acquisition as a purchase, and the operating results of Interpore have been consolidated from the date of acquisition. Interpore's respective assets and liabilities have been recorded at their estimated fair values in the Company's financial statements, with the excess purchase price being allocated to goodwill.

The Company completed its initial purchase price allocation in accordance with U.S. generally accepted accounting principles. The process included interviews with Interpore management, review of the economic and competitive environment in which Interpore operates and examination of assets, including historical performance and future prospects. The purchase price allocation was based on information currently available to the Company, and expectations and assumptions deemed reasonable to the Company's management. No assurances can be given, however, that the underlying assumptions used to estimate expected technology based product revenue, development costs or profitability, or the events associated with such technology, will occur as projected.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in the acquisition:

	As of June 16, 2004

Current assets	\$ 60,316
Property, plant and equipment	9,307
Intangible assets not subject to amortization:	
Trademarks and trade names	1,260
Intangible assets subject to amortization:	
Trademarks and trade names	2,270
Developed technology	16,180
Distribution and sales agreements	11,440
License agreements	3,450
In-process research and development	26,020
Other assets	83
Goodwill	169,596

Total assets acquired	299,922

Deferred taxes	14,512
Other current liabilities	14,909

Total liabilities assumed	29,421

Net assets acquired	\$270,501
	=====

The \$26,020,000 assigned to in-process research and development was written off as of the acquisition date. The weighted average amortization period for amortizable intangibles is 10 years. No amount of goodwill is expected to be deductible for tax purposes. Pro forma financial information reflecting this acquisition has not been presented as it is not materially different from the Company's historical results.

NOTE 3: COMPREHENSIVE INCOME.

Other comprehensive income includes foreign currency translation adjustments and unrealized depreciation of available-for-sale securities, net of taxes. Other comprehensive income for the three months ended February 28, 2005 and 2004 was \$8,620,000 and \$27,186,000, respectively. Other comprehensive income for the nine months ended February 28, 2005 and 2004 was \$27,151,000 and \$39,668,000, respectively. Total comprehensive income combines reported

Edgar Filing: BIOMET INC - Form 10-Q

net income and other comprehensive income. Total comprehensive income for the three months ended February 28, 2005 and 2004 was \$105,404,000 and \$113,786,000, respectively. Total comprehensive income for the nine months ended February 28, 2005 and 2004 was \$275,567,000 and \$285,438,000, respectively.

NOTE 4: INVENTORIES.

Inventories at February 28, 2005 and May 31, 2004 are as follows:

	February 28, 2005	May 31, 2004
	-----	-----
	(in thousands)	
Raw materials	\$ 47,253	\$ 34,075
Work-in-process	56,104	43,187
Finished goods	187,460	163,299
Consigned inventory	165,795	148,830
	-----	-----
	\$456,612	\$389,391
	=====	=====

NOTE 5: DEBT.

In connection with the Interpore acquisition, the Company entered into a 36 month revolving credit facility in the amount of \$200 million. Interest is payable at LIBOR plus 0.5%. At February 28, 2005, \$180 million was outstanding and the interest rate was 3.17%.

NOTE 6: COMMON SHARES.

During the nine months ended February 28, 2005, the Company issued 1,109,353 Common Shares upon the exercise of outstanding stock options for proceeds aggregating \$19,466,000. Purchases of Common Shares pursuant to the Common Share Repurchase Programs aggregated 3,507,270 shares for \$155,405,000 during the nine months ended February 28, 2005.

NOTE 7: 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 8: 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, tax credits and the write-off of in-process research and development, which is not tax affected.

NOTE 9: CONTINGENCIES.

On March 29, 2005, the Company received a subpoena from the U.S. Department of Justice through the U.S. Attorney for the District of New Jersey requesting documents related to any consulting and professional service agreements with orthopedic surgeons using or considering the use of Biomet's hip or knee implants. It is the Company's understanding that similar inquiries have been directed to other companies in the orthopedics industry. The Company intends to fully cooperate with the Department of Justice inquiry.

Edgar Filing: BIOMET INC - Form 10-Q

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

FINANCIAL CONDITION AS OF February 28, 2005

The Company's cash and investments decreased \$62,849,000 since May 31, 2004 to \$172,763,000 at February 28, 2005. This decrease resulted from the \$50,872,000 dividend paid during the first quarter, the \$155,405,000 used to purchase shares during the first nine months pursuant to the Company's share repurchase programs and the acquisition of Interpore during the first quarter, offset by positive cash flow from operations and an increase in short term borrowings.

Cash flows provided by operating activities were \$284,716,000 for the first nine months of fiscal 2005 compared to \$254,093,000 in 2004. The primary sources of fiscal year 2005 cash flows from operating activities were net income, depreciation and the write-off of in-process research and development at the acquisition date of Interpore. The primary use was an increase in inventory. Inventories increased from new product introductions, specifically new knee systems introduced in the US and Europe. Accounts and notes receivable and inventory balances were increased during the nine month period by \$19.6 million and \$12.6 million, respectively, due to currency exchange rates.

Cash flows used in investing activities were \$337,672,000 for the first nine months of fiscal 2005 compared to a source of \$64,411,000 in 2004. The primary use of cash flows from investing activities were the acquisition of Interpore and capital expenditures. (see Footnote 2 in the Notes to Consolidated Financial Statements)

Cash flows used in financing activities were \$3,078,000 for the first nine months of fiscal 2005 compared to a use of \$171,004,000 in 2004. The primary source of cash flows from financing activities was the 36 month revolving credit facility in the amount of \$200 million used for the Interpore acquisition. The primary uses were the cash dividend paid and the share repurchase programs. In July 2004, the Company's Board of Directors declared a cash dividend of twenty cents (\$0.20) per share payable to shareholders of record at the close of business on July 16, 2004.

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, research and development costs and share repurchases.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED FEBRUARY 28, 2005 AS COMPARED TO THE NINE MONTHS ENDED FEBRUARY 28, 2004

Net sales increased 18% to \$1,376,857,000 for the nine months ended February 28, 2005, from \$1,168,065,000 for the same period last year. This sales growth includes a positive impact from foreign currency of \$27.8 million and additional sales from the acquisition of Interpore of \$39.1 million, leaving net sales growth for the nine months in local currencies at 12%. The Company's U.S.-based revenue increased 17% to \$918,514,000 during the first nine months of fiscal 2005, while foreign sales increased 21% to \$458,343,000. The Interpore acquisition added \$30.9 million to U.S.-based revenue and \$8.2 million to foreign revenue. The Company's worldwide sales of reconstructive products during the first nine months of fiscal 2005 were \$910,087,000, representing a 20% increase compared to the first nine months of last year. Sales of fixation products were \$185,131,000 for the first nine months fiscal 2005, representing a minimal increase as compared to the same period in 2004. Sales of spinal products were \$158,756,000 for the first nine months of fiscal

Edgar Filing: BIOMET INC - Form 10-Q

2005, representing a 37% increase as compared to the same period in 2004. The increase was primarily a result of the Interpore acquisition and strong growth in EBI's spinal implants and orthobiological products. Fixation and spinal product sales have been negatively impacted by the combination of the Interpore and EBI sales forces, and at the same time the integration of Biomet's internal fixation sales force into EBI's fixation sales force. The Company expects this negative impact to continue during the next quarter. The Company's sales of other products totaled \$122,883,000, representing an 11% increase over the first nine months of fiscal year 2004.

Cost of sales increased as a percentage of net sales to 28.7% for the first nine months of fiscal 2005 from 28.3% for the same period last year. The current period impact of inventory step-up relating to acquisitions was 1.6%. This increase was offset by a decrease of 1.2% primarily as a result of higher growth rates in reconstructive devices, where gross margins are higher. Selling, general and administrative expenses, as a percentage of net sales, increased to 36.7% compared to 35.5% for the first nine months of last year. This increase is a result of Interpore's traditionally higher selling, general and administrative expenses (0.4%), increased bad debt expense for EBI's domestic insurance receivables (0.6%) and continued expansion and integration of EBI's direct sales force. Research and development expenditures, as a percentage of net sales, increased to 4.3% compared to 4.0% for the first nine months of last year reflecting Interpore's traditionally higher expenditures on research and development (0.2%) and the Company's continued emphasis on new product introductions. In-process research and development expense relates to the acquired in-process research and development related to the Interpore acquisition, which was written off at the acquisition date. Operating income increased 4% from \$376,442,000 for the first nine months of fiscal 2004, to \$391,150,000 for the first nine months of fiscal 2005. The affect on operating income for the previously discussed acquisition related expenses was a reduction of \$47,826,000. Other income decreased from \$10,260,000 last year to \$2,157,000 this year. Other income has been negatively impacted by a reduction in cash available for investments and an increase in short term debt, due to acquisitions. In addition, over the last twelve quarters, the Company has used \$757,312,000 to purchase its common stock. The effective income tax rate increased to 36.8% for the first nine months of fiscal year 2005 from 34.8% last year primarily as a result of write-off of in-process research and development not being tax affected.

These factors resulted in a 1% increase in net income from \$245,770,000 to \$248,416,000, a 2% increase in basic earnings per share from \$0.96 to \$0.98 and a 2% increase in diluted earnings per share from \$0.95 to \$0.97 for the periods presented. The affect of acquisition related expenses as discussed in the preceding paragraph, net of tax, on net income, basic earnings per share and diluted earnings per share was to decrease them by \$40,252,000, \$0.16 per share and \$0.16 per share, respectively.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED FEBRUARY 28, 2005 AS COMPARED TO THE THREE MONTHS ENDED FEBRUARY 28, 2004

Net sales increased 18% to \$482,023,000 for the third quarter ended February 28, 2005, from \$410,185,000 for the same period last year. This sales growth includes a positive impact from foreign currency of \$11.2 million and additional sales from the acquisition of Interpore of \$11.7 million, leaving net sales growth for the quarter in local currencies at 12%. The Company's U.S.-based revenue increased 15% to \$313,204,000 during the third quarter of fiscal 2005, while foreign sales increased 22% to \$168,819,000. The Interpore acquisition added \$9.1 million to U.S.-based revenue and \$2.6 million to foreign revenue. The Company's worldwide sales of reconstructive products during the third quarter of fiscal 2005 were \$326,220,000, representing a 21% increase compared to the third quarter of last year. Sales of fixation products were \$62,090,000

Edgar Filing: BIOMET INC - Form 10-Q

for the third quarter of fiscal 2005, representing a slight decrease as compared to the same period in 2004. Sales of spinal products were \$52,615,000 for the third quarter of fiscal 2005, representing a 34% increase as compared to the same period in 2004. The increase was primarily a result of the Interpore acquisition and strong growth in EBI's spinal implants and orthobiological products. Fixation and spinal product sales have been negatively impacted by the combination of the Interpore and EBI sales forces, and at the same time the integration of Biomet's internal fixation sales force into EBI's fixation sales force. The Company expects this negative impact to continue during the next quarter. The Company's sales of other products totaled \$41,098,000, representing an 8% increase over the third quarter of fiscal year 2004.

Cost of sales increased as a percentage of net sales to 28.6% for the third quarter of fiscal 2005 from 28.3% for the same period last year. The current period impact of inventory step-up relating to acquisitions was 1.5%. This increase was offset by a decrease of 1.2% primarily as a result of higher growth rates in reconstructive devices, where gross margins are higher. Selling, general and administrative expenses, as a percentage of net sales, increased to 37.2% compared to 35.5% for the third quarter last year. This increase is a result of Interpore's traditionally higher selling, general and administrative expenses (0.3%), increased bad debt expense for EBI's domestic insurance receivables (0.9%) and continued expansion and integration of EBI's direct sales force. Research and development expenditures, as a percentage of net sales, increased to 4.2% compared to 3.9% for the third quarter last year reflecting Interpore's traditionally higher expenditures on research and development (0.2%) and the Company's continued emphasis on new product introductions. Operating income increased 9% from \$132,589,000 for the third quarter of fiscal 2004, to \$144,270,000 for the third quarter of fiscal 2005. The affect on operating income for the previously discussed acquisition related expenses was a reduction of \$7,402,000. Other income decreased from \$3,570,000 last year to \$2,641,000 this year. Other income has been negatively impacted by a reduction in cash available for investments and an increase in short term debt, due to acquisitions and common stock repurchases. The effective income tax rate decreased from 34.8% last year to 34.1% this year. This is a result of finalizing the European reorganization in connection with the Company's purchase of Merck's interest in the Biomet Merck joint venture and obtaining tax clearances from the respective tax authorities.

These factors resulted in a 12% increase in net income to \$96,784,000 for the third quarter of fiscal 2005 as compared to \$86,600,000 for the same period in fiscal 2004, while basic and diluted earnings per share increased 12%, from \$0.34 to \$0.38 for the periods presented. The affect of acquisition related expenses as discussed in the preceding paragraph, net of tax, on net income, basic earnings per share and diluted earnings per share was to decrease them by \$4,831,000, \$0.02 per share and \$0.02 per share, respectively.

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, 2005.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of its management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the

Edgar Filing: BIOMET INC - Form 10-Q

Company's disclosure controls and procedures are effective in timely notification to them of information the Company is required to disclose in its periodic SEC filings and in ensuring that this information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations.

(b) Changes in Internal Control. During the third quarter of fiscal 2005 covered by this report, there have been no significant changes in internal control over financial reporting that have materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1: Legal Proceedings.

On March 29, 2005, the Company received a subpoena from the U.S. Department of Justice through the U.S. Attorney for the District of New Jersey requesting documents related to any consulting and professional service agreements with orthopedic surgeons using or considering the use of Biomet's hip or knee implants. It is the Company's understanding that similar inquiries have been directed to other companies in the orthopedics industry. The Company intends to fully cooperate with the Department of Justice inquiry.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) Stock Repurchases

As of February 28, 2005, the Company had two publicly-announced share repurchase programs outstanding. The first, announced July 1, 2004, approved the purchase of 2,500,000 shares to be automatically purchased in equal installments over a twelve-month period expiring July 1, 2005. The second, also announced July 1, 2004, approved the purchase of shares up to \$100 million in open market or privately negotiated transactions expiring July 1, 2005. Information on shares repurchased in the most recently completed quarter is as follows:

Period	Total Number of shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares (or Approximate Dollar Value) that May Yet be Purchased Under the Plans
December 1-31	460,500	\$45.04	460,500	988,000 shares and \$52,373,060
January 1-31	490,370	42.10	490,370	748,000 shares and \$41,847,274
February 1-28	228,000	43.99	228,000	520,000 shares and \$41,847,274
	-----	-----	-----	-----
	1,178,870	43.61	1,178,870	520,000 shares and \$41,847,274

On March 22, 2005 the Company announced that it had expanded the share repurchase programs by adding an additional \$100 million. Purchases of the additional \$100 million of Common Shares, if any, will be dependent on market conditions and may be made from time to time in open market or privately negotiated transactions between March 21, 2005 and March 20, 2006.

Item 6. Exhibits.

Edgar Filing: BIOMET INC - Form 10-Q

See Index to Exhibits.

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.

DATE: 4/11/2005

BY: /s/ Gregory D. Hartman

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

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

BIOMET, INC.

FORM 10-Q

INDEX TO EXHIBITS

Number Assigned
in Regulation
S-K Item 601

Description of Exhibit

- | | |
|------|---|
| (2) | No exhibit |
| (4) | 4.1 Specimen certificate for Common Shares.
(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) | No Exhibit. |
| (11) | No Exhibit |
| (15) | No Exhibit. |
| (18) | No Exhibit. |
| (19) | No Exhibit. |
| (22) | No Exhibit. |
| (23) | No Exhibit. |
| (24) | No Exhibit. |

Edgar Filing: BIOMET INC - Form 10-Q

(31) 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(32) 32.1 Written Statement of Chief Executive Officer and Chief Financial Officer Pursuant to Sections 906 of the Sarbanes-Oxley Act of 2002.