BIOMET INC
Form 10-Q
January 14, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 30, 2008

OR

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

For the transition period from ______ to ______

Commission file No. 001-15601.

BIOMET, INC.

(Exact name of registrant as specified in its charter)

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

(574) 267-6639

(Registrant s telephone number, including area code)

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

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

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

Indicate by check mark if the registrant is required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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):

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

Indicate by checkmark whether the registered is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of November 30, 2007, the last business day of the registrant s prior year completed second fiscal quarter, there was no established public trading market for any of the common stock of the registrant. As of November 30, 2008, there were 1,000 shares of common stock of the registrant outstanding, 100.0% of which were owned by LVB Acquisition, Inc.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Biomet, Inc. and Subsidiaries Condensed Consolidated Balance Sheets

(in millions)

	November 30, 2008 *(Unaudited)*	May 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 229.3	$ 127.6
Accounts receivable, net	483.5	486.2
Income tax receivable	48.8	48.8
Inventories	510.3	539.7
Deferred income taxes	97.1	100.7
Prepaid expenses and other	45.5	46.7
Total current assets	1,414.5	1,349.7
Property, plant and equipment, net	611.9	640.9
Investments	33.8	41.3
Intangible assets, net	5,736.3	6,208.2
Goodwill	5,103.4	5,422.8
Other assets	111.4	118.9
Total assets	$ 13,011.3	$ 13,781.8
Liabilities & Shareholders Equity		
Current liabilities:		
Short-term borrowings	$ 72.5	$ 75.4
Accounts payable	69.6	83.7
Accrued interest	79.7	80.9
Accrued wages and commissions	64.1	79.1
Other accrued expenses	179.7	245.4
Total current liabilities	465.6	564.5
Long-term liabilities:		
Long-term debt	6,124.4	6,225.4
Deferred income taxes	1,902.7	2,112.5
Other long-term liabilities	196.7	43.1
Total liabilities	8,689.4	8,945.5
Shareholders equity:		
Additional paid-in capital	44.6	25.8
Contributed capital	5,523.2	5,521.9
Accumulated deficit	(1,063.8)	(964.2)
Accumulated other comprehensive income (loss)	(182.1)	252.8
Total shareholders equity	4,321.9	4,836.3
Total liabilities and shareholders equity	$ 13,011.3	$ 13,781.8

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

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Biomet, Inc. and Subsidiaries Condensed Consolidated Statements of Operations

(in millions)

	(Unaudited) Three Months Ended November 30, 2008	(Unaudited) Three Months Ended November 30, 2007	(Unaudited) Six Months Ended November 30, 2008	(Unaudited) July 12 - November 30, 2007 (Successor)	June 1 - July 11, 2007 (Predecessor)
Net sales	$ 642.8	$ 607.2	$ 1,249.8	$ 895.8	$ 248.8
Cost of sales	194.9	244.6	376.4	351.4	102.3
Gross margin	447.9	362.6	873.4	544.4	146.5
Selling, general and administrative expense	254.7	413.2	508.2	600.5	194.2
Research and development expense	23.4	21.9	46.9	35.5	34.0
In-process research and development		86.2		479.0	
Amortization	89.8	92.3	181.3	137.5	0.5
Operating income (loss)	80.0	(251.0)	137.0	(708.1)	(82.2)
Interest expense, net	(139.2)	(148.7)	(280.3)	(229.1)	(0.3)
Other income (expense)	(11.6)	(4.9)	(20.6)	0.5	0.6
Other income (expense), net	(150.8)	(153.6)	(300.9)	(228.6)	0.3
Loss before income taxes	(70.8)	(404.6)	(163.9)	(936.7)	(81.9)
Benefit from income taxes	(31.1)	(102.6)	(64.3)	(152.5)	(27.3)
Net loss	$ (39.7)	$ (302.0)	$ (99.6)	$ (784.2)	$ (54.6)

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

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Biometi, Inc. and Subsidiaries Condensed Consolidated Statements of Cash Flows

(in millions)

	(Unaudited) Six Months Ended November 30, 2008	(Unaudited) July 12 - November 30, 2007 (Successor)	June 1 -July 11, 2007 (Predecessor)
Cash flows provided by (used in) operating activities:			
Net loss	$ (99.6)	$ (784.2)	$ (54.6)
Adjustments to reconcile net loss to net cash from operating activities:			
Depreciation and amortization	261.4	195.2	9.3
Amortization of deferred financing costs	5.7	4.7	
In-process research and development		479.0	
Stock-based compensation expense	18.8		
Inventory step-up related to merger		92.3	
Allowance for doubtful accounts receivable	(3.5)		
Loss (gain) and impairment on investments	6.5		(7.0)
Provision for inventory obsolescence	0.4		
Deferred income taxes	(69.7)	(248.3)	76.7
Excess tax benefit from exercise of stock options			(3.9)
Other	(0.1)	(0.3)	
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(40.5)	(29.7)	5.8
Inventories	(25.5)	20.5	(12.0)
Prepaid expenses	(2.6)	35.8	
Accounts payable	(6.7)	(9.9)	(1.6)
Income taxes	(5.7)	27.9	
Accrued interest	(0.8)	106.3	
Share-based compensation accrual related to merger			112.8
Other	9.5	110.1	(66.1)
Net cash provided by (used in) operating activities	47.6	(0.6)	59.4
Cash flows provided by (used in) investing activities:			
Net proceeds from investments		95.8	42.8
Capital expenditures	(92.9)	(76.7)	(22.0)
Acquisitions, net of cash acquired	(2.2)	(0.4)	(9.8)
Acquisition of Biomet, Inc.		(11,638.2)	
Net cash provided by (used in) investing activities	(95.1)	(11,619.5)	11.0
Cash flows provided by financing activities:			
Debt:			
Proceeds (payments) under amended revolving credit agreement	8.5	(40.4)	0.2
Proceeds (payments) under senior secured credit facility	(18.2)		
Proceeds (payments) under asset based revolver	165.4		
Proceeds from long-term debt related to merger		6,250.7	
Payment of deferred financing costs		(87.1)	
Equity:			
Capital contributions	1.9	5,401.9	
Repurchase of common shares	(0.6)		(2.8)
Excess tax benefit from exercise of stock options			3.9
Net cash provided by financing activities	157.0	11,525.1	1.3

Effect of exchange rate changes on cash		(7.8)		2.0		0.1
Increase (decrease) in cash and cash equivalents		101.7		(93.0)		71.8
Cash and cash equivalents, beginning of period		127.6		176.9		105.1
Cash and cash equivalents, end of period	$	229.3	$	83.9	$	176.9
Supplemental disclosures of cash flow information:						
Cash paid during the period for:						
Interest	$	277.1	$	1.5	$	
Income taxes	$	14.8	$	21.0	$	

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

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Biomet, Inc. and Subsidiaries Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 - Merger.

On December 18, 2006, Biomet, Inc. entered into an Agreement and Plan of Merger with LVB Acquisition, LLC, a Delaware limited liability company (LVB), 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 (the Merger Agreement). Pursuant to the Merger Agreement, on June 13, 2007, Purchaser commenced a cash tender offer (the Offer and together with the Merger, the Transactions), to purchase all of Biomet s outstanding common shares, without par value. LVB is controlled by a consortium of private equity funds: Blackstone Capital Partners V L.P., GS Capital Partners VI Fund, L.P., KKR 2006 Fund L.P. and Texas Pacific Group (each a Sponsor and collectively, the Sponsors). The Sponsors, along with other investors, contributed $5,387.5 million of equity in connection with the Transactions. The remaining purchase price of $6,245.4 million included various proceeds from credit facilities. The unaudited condensed consolidated financial statements should be read in conjunction with Biomet s Annual Report on Form 10-K for the fiscal year ended May 31, 2008, as amended.

The Merger was accounted for under the purchase method of accounting pursuant to Statements of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*. Accordingly, the effect of the Merger has been included in the Company s condensed consolidated statement of operations subsequent to July 11, 2007 (the Merger Date), and the respective assets and liabilities have been recorded at their estimated fair values in the Company s condensed consolidated balance sheet as of the Merger Date, with the excess purchase price recorded as goodwill. As of July 12, 2007, the Successor Company began operating under a new basis of accounting for its financial statements. Because of the new basis of accounting, the Predecessor Company s historical financial information is not comparable to the Successor Company s financial information for periods after July 12, 2007. The term Successor Company refers to Biomet following its acquisition by Purchaser on July 12, 2007 and the term Predecessor Company refers to Biomet prior to its acquisition on July 12, 2007.

The Company has allocated the purchase price to the fair value of the assets and liabilities of Biomet based on estimated fair values utilizing generally accepted valuation methodologies. Both assets and liabilities were valued as of July 11, 2007. On July 12, 2007, 82.4% of the step-up was recorded and combined with 17.6% of the Predecessor Company. On September 25, 2007 (the Closing Date), the remaining fair value step-up of 17.6% was recorded. The additional step-up included an increase in the in-process research and development (IPRD) charge of $86.2 million, increase of the property plant and equipment fair value of $14.2 million, and an increase in the fair value of inventory of $28.2 million. Also, the Tender Facility (as defined in Note 8 below) starting on July 12, 2007 was refinanced on the Closing Date into various other credit facilities. See Note 8 Debt below for a description of those facilities. See summary below of the allocation of the total purchase price:

	(in millions)
Cash	$ 57.0
Short-term investments	126.0
Accounts receivable	494.0
Inventories	714.3
Deferred tax assets	60.6
Prepaids and other assets	134.4
Property, plant and equipment	608.0
In-process research and development	479.0
Intangible assets	6,304.5
Goodwill	5,303.0
Deferred tax liabilities	(2,184.9)
Other liabilities	(463.0)
Purchase Price	$ 11,632.9

The purchase price allocation was based on information then available to the Company, and expectations, assumptions, and valuation methodologies deemed reasonable by the Company s management. No assurance can be given, however, that the underlying assumptions used to estimate expected technology based product revenues, development costs or profitability, or the events associated with such technology, will occur as projected. Goodwill recorded as a result of the Merger is not deductible for income tax purposes.

Note 2 - Summary of Significant Accounting Policies and Nature of Operations.

General The Company is one of the largest orthopedic medical device companies in the United States and worldwide with operations and offices in over 50 locations throughout the world and distribution in approximately 90 countries. The Company designs, manufactures and markets a comprehensive range of both surgical and non-surgical products used primarily by orthopedic surgeons and other musculoskeletal medical specialists. For approximately 30 years, the Company has applied advanced engineering and manufacturing technology to the development of highly durable joint replacement systems.

Basis of Presentation The unaudited condensed consolidated financial statements include the accounts of Biomet, Inc. and its subsidiaries (individually and collectively referred to as Biomet , the Company , we , us , or our). The unaudited condensed consolidated financial statemen include all accounts of Biomet and all of its wholly-owned subsidiaries. The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for condensed financial information. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The Company s results of operations for the six months ended November 30, 2008 are not comparative to the Company s results of operations for the period June 1, 2007 to July 11, 2007 because of the new basis of accounting resulting from the Merger Date of July 11, 2007. The purchase price allocation included an IPRD charge of $479.0 million, and step-ups in fair value of inventory of $160.3 million and $80.4 million for fixed assets. The amounts were fully recorded as of the Closing Date of the Merger. Operating results for the period ended November 30, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2009. For further information, including the Company s significant accounting policies, refer to the audited consolidated financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended May 31, 2008, as amended.

Products The Company operates in one business segment, musculoskeletal products, which includes the design, manufacture and marketing of products in four major categories: reconstructive products, fixation devices, spinal products and other products. The Company has three reportable geographic segments: United States, Europe and International.

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Biomet, Inc. and Subsidiaries Notes to Condensed Consolidated Financial Statements (Unaudited) (continued)

Note 2 - Summary of Significant Accounting Policies and Nature of Operations, Continued.

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

Fixation Fixation devices are used for setting and stabilizing damaged bones to support and/or augment the body s natural healing process. Electrical stimulation devices used in trauma indications offer implantable and non-invasive options to stimulate bone growth. Other products include internal fixation devices (such as nails, plates, screws, pins and wires used to stabilize traumatic bone injuries), external fixation devices (used to stabilize fractures when alternative methods of fixation are not suitable), craniomaxillofacial fixation systems and bone substitute materials.

Spinal The Company s spinal products include electrical stimulation devices for spinal applications, spinal fixation systems, bone substitute materials and motion preservation systems, as well as allograft services for spinal applications. These products and services are primarily marketed in the United States under the Biomet Spine trade name.

Other The Company manufactures and distributes a number of other products, including sports medicine products (used in minimally-invasive orthopedic surgical procedures), orthopedic support products (also referred to as softgoods and bracing products), operating room supplies, casting materials, general surgical instruments, wound care products and other surgical products.

Effect of Foreign Currency Assets and liabilities of foreign subsidiaries are translated at rates of exchange in effect at the close of their calendar month end. Revenues and expenses are translated at the weighted average exchange rates during the period. Translation gains and losses are accumulated within other comprehensive income (loss) as a separate component of shareholders equity. Foreign currency transaction gains and losses resulting from product transfer between subsidiaries are recorded in cost of goods sold. Other foreign currency exchange gains and losses that do not involve the movement of product are included in other income (expense), net.

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

Investments The Company invests the majority of its excess cash in bank deposits and money market securities. The Company also holds municipal bonds, corporate and mortgage-backed securities, common stocks and auction-rate securities. The Company accounts for its investments in debt and equity securities under SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, which requires certain securities to be categorized as trading, available-for-sale or held-to-maturity. The Company also accounts for its investments under SFAS 157, *Fair Value Measurements*, which establishes a framework for measuring fair value in accordance with generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about fair value measurements. Available-for-sale securities are carried at fair value with unrealized gains and losses, net of tax, recorded within other comprehensive income (loss) as a separate component of shareholders equity. Held-to-maturity securities are carried at amortized cost. The Company has no trading securities. The cost of investment securities sold is determined by the specific identification method. Dividend and interest income are accrued as earned. The Company reviews its investments quarterly for declines in fair value that are other-than-temporary. Investments that have declined in market value that are determined to be other-than-temporary are charged to other income (expense), net, by writing that investment down to fair value. Investments are classified as short-term for those expected to mature or be sold within twelve months and the remaining portion is classified in long-term investments.

Risk Management

Foreign Currency Instruments Certain assets, liabilities and forecasted transactions are exposed to foreign currency risk, primarily the fluctuation of the U.S. Dollar against European currencies. The Company faces transactional currency exposures that arise when it or its foreign subsidiaries enter into transactions, primarily on an intercompany basis, denominated in currencies other than their functional currency. The Company also faces currency exposure that arises from translating the results of its global operations to the U.S. Dollar at exchange rates that have fluctuated from the beginning of the period. The Company has hedged a portion of its net investment in its European subsidiaries with the issuance of a 875.0 million principal amount term loan on September 25, 2007. The Company s net investment in its European subsidiaries at the hedging date of September 25, 2007 was $1,690.0 million (1,238.0 million). As of November 30, 2008, the Company s net investment in European subsidiaries totaled 1,483.8 million ($1,884.0 million) and the outstanding principal balance was 866.3 million ($1,099.9 million). The difference of 617.5 million ($784.1 million) remained unhedged. Effectiveness is tested quarterly to determine whether hedge treatment is still appropriate. The Company tests effectiveness on this net investment hedge by determining if the net investment in its European subsidiaries is greater than the outstanding Euro denominated debt balance. Any ineffectiveness is recorded in the statement of operations.

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Biomet, Inc. and Subsidiaries Notes to Condensed Consolidated Financial Statements (Unaudited) (continued)

Note 2 - Summary of Significant Accounting Policies and Nature of Operations, Continued.

Interest Rate Instruments   The Company entered into interest rate swap agreements (cash flow hedges) in both U.S. Dollars and Euros on September 25, 2007 and March 25, 2008 as a means of fixing the interest rate on portions of its floating-rate debt instruments. See the table below for existing contracts (U.S. Dollars and Euros in millions):

(in millions)

Structure	Currency	Notional Amount	Termination Date	Fair Value at November 30, 2008 Asset (Liability)
1 year	Euro	75.0	September 25, 2009	$ (0.9)
2 year	Euro	75.0	September 25, 2010	(2.5)
3 year	Euro	50.0	March 25, 2011	(1.3)
	Euro	75.0	September 25, 2011	(3.6)
4 year	Euro	40.0	March 25, 2012	(1.3)
	Euro	230.0	September 25, 2012	(13.4)
5 year	Euro	40.0	March 25, 2013	(1.5)
1 year	USD	$ 195.0	September 25, 2009	(4.7)
2 year	USD	150.0	March 25, 2010	(0.6)
	USD	195.0	September 25, 2010	(9.8)
3 year	USD	110.0	March 25, 2011	(1.2)
	USD	195.0	September 25, 2011	(15.3)
4 year	USD	140.0	March 25, 2012	(2.4)
	USD	585.0	September 25, 2012	(57.5)
5 year	USD	190.0	March 25, 2013	(4.8)
Total				$ (120.8)

The interest rate swaps were a liability of $120.8 million at November 30, 2008 and are included in other accrued expenses and other long term liabilities. As a result of cash flow hedge treatment being applied, all unrealized gains and losses related to the derivative instruments are included in other comprehensive income and are reclassified into operations in the same period in which the hedged transaction affects earnings. Effectiveness is tested quarterly to determine if hedge treatment is still appropriate. The amount of ineffectiveness recognized in operations was not material for any period presented. Subsequent to November 30, 2008, the Company entered into an additional swap contract to hedge the variable interest rate exposure of its U.S. Dollar term loan. The notional amount of the contract is $325.0 million and the maturity date is December 25, 2013. The Company did not enter into any derivative instruments prior to fiscal 2008.

As of November 30, 2008, the effective interest rate, including the applicable lending margin, on 76% ($1,760.0 million) of the outstanding principal of the Company s U.S. Dollar term loan was fixed at 7.34% through the use of interest rate swaps. The effective interest rate on 68% (585.0 million) of the outstanding principal of the Company s Euro term loan was fixed at 7.31% through the use of interest rate swaps. The remaining unhedged balances of the U.S. Dollar and Euro term loans had effective interest rates of 6.76% and 8.14%, respectively.

Comprehensive Income   Total comprehensive income combines reported net loss and foreign currency translation adjustments, unrealized appreciation/depreciation of available-for-sale securities, unrealized gains and losses related to the net investment in the Euro term loan, and unrecognized actuarial loss on pension assets and interest rate swap derivatives. Amounts in accumulated other comprehensive income are presented net of the related tax impact. Foreign currency translation adjustments are not currently adjusted for income taxes, as they relate to permanent investments in international subsidiaries.

Other comprehensive income (loss) and the related components as included in total comprehensive income (loss) are included in the table below:

	Three Months Ended November 30,		Six Months Ended November 30,	July 12 - November 30, 2007	June 1, - July 11, 2007
(in millions)	2008	2007	2008	(Successor)	(Predecessor)
Net loss	$ (39.7)	$ (302.0)	$ (99.6)	$ (784.2)	$ (54.6)
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	(243.4)	(5.1)	(373.4)	0.5	(6.6)
Unrealized loss on interest rate swaps	(55.7)		(62.2)		
Unrealized gain (loss) on available-for-sale securities	(1.3)	0.2	0.7		
Total other comprehensive income (loss), net of tax	(300.4)	(4.9)	(434.9)	0.5	(6.6)
Total other comprehensive loss	$ (340.1)	$ (306.9)	$ (534.5)	$ (783.7)	$ (61.2)

Concentrations of Credit Risk and Allowance for Doubtful Receivables The Company provides credit, in the normal course of business, to hospitals, private and governmental institutions and healthcare agencies, insurance providers, dental practices and laboratories, and physicians. The Company maintains an allowance for doubtful receivables based on estimated collection rates and charges actual losses to the allowance when incurred. The estimated collection rates require management judgment.

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Biomet, Inc. and Subsidiaries Notes to Condensed Consolidated Financial Statements (Unaudited) (continued)

Note 2 - Summary of Significant Accounting Policies and Nature of Operations, Continued.

Other Loss Contingencies   The Company has self-insured reserves against product liability claims with insurance coverage above the retention limits. There are various other claims, lawsuits, disputes with third parties, investigations and pending actions involving various allegations against it. Product liability claims are routinely reviewed by the Company s insurance carrier and management routinely reviews all claims for purposes of establishing ultimate loss estimates. In addition, management must determine the estimated liability for claims incurred, but not reported. Such estimates and any subsequent changes in estimates may result in adjustments to the Company s operating results in the future.

Revenue Recognition   The Company sells product through four principal channels: (1) direct to healthcare institutions, referred to as direct channel accounts, (2) through stocking distributors and healthcare dealers, (3) indirectly through insurance companies and (4) directly to dental practices and dental laboratories. Sales through the direct and distributor/dealer channels account for a majority of net sales. Through these channels, inventory is generally consigned to sales agents or customers so that products are available when needed for surgical procedures. Revenue is not recognized upon the placement of inventory into consignment as the Company retains title and maintains the inventory on the balance sheet; however, it is recognized upon implantation and receipt of proper purchase order and/or purchase requisition documentation. Pricing for products is generally predetermined by contracts with customers, agents acting on behalf of customer groups or by government regulatory bodies, depending on the market. Price discounts under group purchasing contracts are generally linked to volume of implant purchases by customer healthcare institutions within a specified group. At negotiated thresholds within a contract buying period, price discounts may increase. At certain locations the Company records a contractual allowance that is offset against revenue for each sale to a non-contracted payor so that revenue is recorded at the estimated determinable price at the time of the sale. At certain locations revenue is recognized on sales to stocking distributors, healthcare dealers, dental practices and dental laboratories when title to product passes to them, generally upon shipment. Certain subsidiaries allow customers to return product in the event that the Company terminates the relationship. Under those circumstances, the Company records an estimated sales return in the period in which constructive notice of termination is given to a distributor. Product returns were not significant for any period presented.

Research and Development   Research and development costs are charged to expense as incurred. IPRD is recognized in business combinations or asset acquisitions for the portion of the purchase price allocated to the appraised value of in-process technologies, defined as those technologies relating to products that have not received approval of the U.S Food and Drug Administration and have no alternative future use, consistent with SFAS 2, *Accounting for Research and Development Costs*, and Financial Accounting Standards Board Interpretation (FIN) 4, *Applicability of SFAS 2 to Business Combinations*.

Income Taxes   The Company records income tax estimates in accordance with SFAS 109, *Accounting for Income Taxes*, and FIN 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109* (FIN 48); however, there are inherent risks that could create uncertainties related to the estimates. The Company adjusts estimates based on normal operating circumstances and conclusions related to tax audits. The Company does not believe any audit finding could materially affect its financial position; however there could be a material impact on the Company s consolidated results of operations and cash flows of a given period.

Management s Estimates and Assumptions   In preparing the financial statements in accordance with accounting principles generally accepted in the United States of America, management must often make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Some of those judgments can be subjective and complex. Consequently, actual results could differ from those estimates.

Change in Accounting Principle   As of the Merger Date, the Company eliminated the one-month lag in reporting for certain subsidiaries in non-domestic locations. The elimination of the one-month lag is considered a change in accounting principle adopted in conjunction with the Merger and was applied prospectively. The effect of the elimination is not considered material to the condensed consolidated financial statements as of May 31, 2008, and for the period July 12, 2007 through November 30, 2007.

Recent Accounting Pronouncements

SFAS 141R   In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS 141R (revised 2007), *Business Combinations.* SFAS 141R establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements, the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date at fair value. SFAS 141R determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is not permitted. The Company is currently evaluating the effect the adoption of FAS 141R will have on its unaudited condensed consolidated financial statements.

SFAS 157   Effective June 1, 2008, the Company adopted FASB SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 establishes a framework for measuring fair value in accordance with generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, except for the measurement of share-based payments. SFAS 157 does not expand the use of fair value in any new circumstances. On February 12, 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 157-2). FSP FAS 157-2 defers the implementation of SFAS 157 for certain nonfinancial assets and nonfinancial liabilities. Accordingly, the Company adopted the required provisions of SFAS 157 at the beginning of fiscal year 2009 and the remaining provisions will be adopted by the Company at the beginning of fiscal year 2010. The fiscal year 2009 adoption did not result in a material impact to the Company s financial statements (see Note 6). The Company is currently evaluating the impact of adopting the remaining parts of SFAS 157 in fiscal year 2010 in accordance with FSP FAS No. 157-2. In October 2008, the FASB issued FASB Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining fair value of a financial asset when the market for that financial asset is not active.

SFAS 159   In February 2007, the FASB issued SFAS 159, *Establishing the Fair Value Option for Financial Assets and Liabilities*, to permit all entities to choose to elect to measure eligible financial instruments at fair value. SFAS 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS 157. An entity is prohibited from retrospectively applying SFAS 159, unless it chooses early adoption. On June 1, 2008 the Company did not elect the fair value option for financial assets and liabilities held at June 1, 2008.

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Biomet, Inc. and Subsidiaries Notes to Condensed Consolidated Financial Statements (Unaudited) (continued)

Note 2 - Summary of Significant Accounting Policies and Nature of Operations, Continued.

SFAS 160 In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB 51*. SFAS 160 establishes accounting and reporting standards that require noncontrolling interests to be reported as a component of equity, changes in a parent s ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the adoption of SFAS 160 to have a material impact on its consolidated financial statements.

SFAS 161 In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities-an Amendment of FASB Statement No. 133*. This statement requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. It also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS No. 133 have been applied and the impact that hedges have on an entity s financial position, financial performance and cash flows. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008, with early adoption encouraged. The Company does not expect the adoption of SFAS 161 will have a material impact on its consolidated financial statements.

SFAS 162 In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States of America. SFAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AICPA Codification of Auditing Standards, AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company does not expect the adoption of SFAS 162 will have a material impact on its consolidated financial statements.

FASB Staff Position No. 140-4 and FIN 46(R)-8 In December 2008, the FASB issued FASB Staff Position No. 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*. FAS 140-4 and FIN 46(R)-8 require additional disclosures about an entity s involvement with variable interest entities and transfers of financial assets. FAS 140-4 and FIN 46(R)-8 will become effective for the Company s fiscal year beginning June 1, 2009. The Company is currently evaluating the effect the adoption of FAS 140-4 and FIN 46(R)-8 will have on its consolidated financial statements.

FASB Staff Position No. 142-3 In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions that are used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*, and requires enhanced related disclosures. FSP 142-3 must be applied prospectively to all intangible assets acquired as of and subsequent to fiscal years beginning after December 15, 2008. The Company is in the process of determining the impact, if any, that the adoption of FSP 142-3 will have on its consolidated financial statements.

Emerging Issues Task Force (EITF) Issue No. 07-3 In June 2007, the FASB Emerging Issues Task Force issued EITF-07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*. EITF 07-3 provides guidance for entities that may make nonrefundable advance payments for goods or services that will be used in future research and development activities and whether the advance payment should be expensed when the advance payment is made or when the research and development activity has been performed. EITF 07-3 is effective for financial statements issued for fiscal years beginning after December 15, 2007. On June 1, 2008 the Company adopted EITF 07-3 and the impact was immaterial to its unaudited condensed consolidated financial statements.

EITF Issue No. 07-1 In December 2007, the FASB issued EITF 07-1, *Accounting for Collaborative Agreements* (EITF 07-1). EITF 07-1 provides guidance regarding financial statement presentation and disclosure of collaborative arrangements, as defined, which includes arrangements the Company has entered into regarding development and commercialization of products. EITF 07-1 is effective for the Company as of March 1, 2009. The Company has not yet completed its evaluation of EITF 07-1, but does not currently believe that adoption will have a material impact on its unaudited condensed consolidated financial statements.

Note 3 - Inventories.

Inventories are stated at lower of cost or market, with cost determined under the first-in, first-out method. The Company reviews inventory on hand and writes down excess and slow-moving inventory based on an assessment of future demand and historical experience. Inventories consisted of the following:

(in millions)	November 30, 2008	May 31, 2008
Raw materials	$ 91.9	$ 89.6
Work-in-process	54.0	57.9
Finished goods	144.9	155.9
Consigned distributor	219.5	236.3
Inventories	$ 510.3	$ 539.7

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Biomet, Inc. and Subsidiaries Notes to Condensed Consolidated Financial Statements (Unaudited) (continued)

Note 4 - Property, Plant and Equipment.

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of 3 to 30 years. Related maintenance and repairs are expensed as incurred. In accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows relating to the asset are less than its carrying amount, with the amount of the loss equal to the excess of carrying cost of the asset over fair value. Depreciation on instruments is included within cost of sales. Property, plant and equipment consisted of the following:

(in millions)	November 30, 2008	May 31, 2008
Land and land improvements	$ 45.4	$ 49.3
Buildings and leasehold improvements	121.7	125.5
Machinery and equipment	232.6	246.6
Instruments	311.0	323.9
Construction in progress	20.5	13.5
Total property, plant and equipment	731.2	758.8
Accumulated depreciation	(119.3)	(117.9)
Total property, plant and equipment, net	$ 611.9	$ 640.9

Note 5 - Investments.

At November 30, 2008, the Company s investment securities were classified as follows:

(in millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Debt securities	$ 36.3	$	$ (5.9)	$ 30.4
Equity securities	0.7			0.7
Mortgage-backed securities	0.7		(0.2)	0.5
Total available-for-sale	37.7		(6.1)	31.6
Held-to-maturity:				
Debt securities	1.5			1.5
Total held-to-maturity	1.5			1.5
Certificates of deposit	0.7			0.7
Total	$ 39.9	$	$ (6.1)	$ 33.8

At May 31, 2008, the Company s investment securities were classified as follows:

(in millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Debt securities	$ 36.3	$	$ (3.8)	$ 32.5
Equity securities	0.7	0.1		0.8
Mortgage-backed securities	5.9		(0.1)	5.8
Total available-for-sale	42.9	0.1	(3.9)	39.1
Held-to-maturity:				
Debt securities	1.5			1.5
Total held-to-maturity	1.5			1.5
Certificates of deposit	0.7			0.7
Total	$ 45.1	$ 0.1	$ (3.9)	$ 41.3

The net proceeds from sales of available-for-sale securities were $85.6 million and $42.8 million for the three months ended November 30, 2007 and for the period July 12, 2007 through November 30, 2007, respectively. There were no sales or purchases of available-for-sale securities for the three and six months ended November 30, 2008 or for the three months ended November 30, 2007. There were no sales of held-to-maturity securities for any period presented. The cost of marketable securities sold is determined by the specific identification method. For the period June 1, 2007 through July 11, 2007, net realized gains on sales of available-for-sale securities were $0.1 million. There were no net realized gains and (losses) on sales for available-for-sale securities for the three and six months ended November 30, 2008, for the three months ended November 30, 2007, or for the period July 12, 2007 through November 30, 2007.

Biomet, Inc. and Subsidiaries Notes to Condensed Consolidated Financial Statements (Unaudited) (continued)

Note 5 - Investments, Continued.

As of November 30, 2008, the Company held auction-rate securities of $28.6 million. They are AAA rated securities with long-term nominal maturities secured by student loans, which are guaranteed by the U.S. Government. Each of these securities was subject to auction processes for which there were insufficient bidders on the scheduled rollover dates. The Company will not be able to liquidate any of its remaining auction-rate securities until a future auction is successful, a buyer is found outside of the auction process (a secondary market develops), a broker/dealer buys them back, or the notes are redeemed. These auction-rate securities have been classified as long-term available-for-sale securities as of November 30, 2008 because of the inability to predict when the market will stabilize. A significant portion of these auction-rate securities are held by the Company s captive insurance company as part of required capital. The securities continue to earn and be paid interest at the maximum contractual rate. The Company has evaluated these securities for temporary or other-than-temporary impairment at November 30, 2008. In doing so, the Company has considered a variety of factors, including intent, liquidity factors, ability to generate alternative cash, other broker pricing, and internally-generated fair value analysis. The Company recorded an unrealized loss in comprehensive income of $3.2 million as of May 31, 2008 and an additional amount of $2.2 million as of November 30, 2008 related to these securities.

The Company reviews its impairments in accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, Staff Accounting Bulletin Topic 5M, *Miscellaneous Accounting and Financial Accounting Standards Board Staff Position*, SFAS 115-1 and 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, to determine if impairment is temporary or other-than-temporary. The Company reviews several factors to determine whether losses are other-than-temporary, including but not limited to (1) the length of time each security was in an unrealized loss position, (2) the extent to which fair value was less than cost, (3) the financial condition and near-term prospects of the issuer or insurer, and (4) the Company s intent and ability to hold each security for a period of time sufficient to allow for any anticipated recovery in fair value.

Note 6 - Fair Value Measurements.

As discussed in Note 2, the Company adopted SFAS 157 effective June 1, 2008, with respect to fair value measurements of (a) nonfinancial assets and liabilities that are recognized or disclosed at fair value in the Company s financial statements on a recurring basis (at least annually) and (b) all financial assets and liabilities. SFAS 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements.

Under SFAS 157, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. SFAS 157 also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The categorization of financial assets and financial liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is broken down into three levels defined as follows:

Level 1 Inputs are quoted prices in active markets for identical assets or liabilities. The Company s Level 1 assets include money market funds, treasury bonds, and marketable equity securities.

Level 2 Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. The Company s Level 2 assets and liabilities primarily include agency bonds, corporate debt securities, asset-backed securities, certain mortgage-backed securities, and interest rate swaps whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 Inputs are unobservable for the asset or liability. The Company s Level 3 assets include auction-rate securities and other equity investments. See the section below titled *Level 3 Valuation Techniques* for further discussion of how the Company determines fair value for investments classified as Level 3.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

For the Company, effective June 1, 2008, fair value under SFAS 157 is principally applied to financial assets and liabilities such as marketable equity securities and debt securities that are classified and accounted for as available-for-sale, investments in equity and other securities, and derivative instruments consisting of interest rate swaps. These items were previously and will continue to be marked-to-market at each reporting period; however, the definition of fair value used for mark-to-market accounting is now applied using SFAS 157. The information in the following paragraphs and tables primarily addresses matters relative to these financial assets and liabilities. Separately, there were no material fair value measurements with respect to nonfinancial assets or liabilities that are recognized or disclosed at fair value in the Company s financial statements on a recurring basis subsequent to the effective date of SFAS 157.

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Biomet, Inc. and Subsidiaries Notes to Condensed Consolidated Financial Statements (Unaudited) (continued)

Note 6 - Fair Value Measurements, Continued.

The following table provides information by level for assets and liabilities that are measured at fair value, as defined by SFAS 157, on a recurring basis.

(in millions)	Fair Value at November 30, 2008	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Assets:				
Corporate debt securities	$ 3.3	$	$ 3.3	$
Auction-rate securities	28.6			28.6
Mortgage-backed securities	0.5		0.5	
Government and agency securities				
Certificates of deposit	0.7	0.7		
Other equity securities	0.7	0.2		0.5
Total assets	$ 33.8	$ 0.9	$ 3.8	$ 29.1
Liabilities:				
Interest rate swaps	$ 120.8	$	$ 120.8	$
Total liabilities	$ 120.8	$	$ 120.8	$

Level 3 Valuation Techniques

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial assets also include certain investment securities for which there is limited market activity such that the determination of fair value requires significant judgment or estimation. Level 3 investment securities primarily include certain auction-rate securities and other equity investments for which there was a decrease in the observation of market pricing. At November 30, 2008, these securities were valued primarily using internal cash flow valuation that incorporates transaction details such as contractual terms, maturity, timing and amount of future cash flows, as well as assumptions about liquidity and credit valuation adjustments of marketplace participants at November 30, 2008.

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3).

	(in millions)
Balance at May 31, 2008	$ 31.3
Total realized losses included in earnings	
Total unrealized losses included in other comprehensive income	(2.2)
Purchases, issuances, and settlements	
Net transfers in (out) of Level 3	
Balance at November 30, 2008	$ 29.1

Realized gains or losses included in earnings are included in other income (expense), net in the consolidated statement of operations.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

During the six months ended November 30, 2008, the Company had no significant measurements of financial assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

The aspects of SFAS 157 for which the effective date was deferred under FSP No. 157-2 until fiscal year 2010 relate to nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis. This deferral applies to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or nonfinancial long-lived asset groups measured at fair value for an impairment assessment.

Note 7 - Goodwill and Other Intangible Assets.

The Company follows SFAS 142, *Goodwill and Other Intangible Assets*. Accordingly, goodwill and indefinite lived intangible assets are not amortized but are tested for impairment at least annually or more frequently if impairment indicators arise. The latest impairment assessment of goodwill and indefinite lived intangible assets was completed in the fourth quarter of fiscal 2007. Future impairment tests will be performed annually in the fiscal fourth quarter, or sooner if warranted.

The balance of goodwill as of November 30, 2008 and May 31, 2008 was $5,103.4 million and $5,422.8 million, respectively. The change in goodwill from May 31, 2008 to November 30, 2008 was a result of foreign currency fluctuations, primarily the weakening of the Euro against the U.S. Dollar.

The Company uses an accelerated method for amortizing customer relationship intangibles as the value for those relationships is greater at the beginning of their life. The change in intangible assets reflects foreign currency fluctuations, primarily the weakening of the Euro against the U.S. Dollar, as well as amortization.

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Biomet, Inc. and Subsidiaries Notes to Condensed Consolidated Financial Statements (Unaudited) (continued)

Note 7 - Goodwill and Other Intangible Assets, Continued.

Intangible assets consisted of the following at November 30, 2008 and May 31, 2008 *(in millions)*:

	November 30, 2008			May 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core technology	$ 2,080.6	$ (148.0)	$ 1,932.6	$ 2,080.6	$ (93.8)	$ 1,986.8
Completed technology	720.4	(74.9)	645.5	720.4	(47.5)	672.9
Product trade names	178.0	(13.5)	164.5	178.0	(8.5)	169.5
Customer relationships	2,917.5	(274.8)	2,642.7	2,917.5	(173.1)	2,744.4
Sub-total	5,896.5	(511.2)	5,385.3	5,896.5	(322.9)	5,573.6
Corporate trade names	408.0		408.0	408.0		408.0
Currency translation	(57.8)	0.8	(57.0)	233.0	(6.4)	226.6
Total	$ 6,246.7	$ (510.4)	$ 5,736.3	$ 6,537.5	$ (329.3)	$ 6,208.2

The weighted average useful life of the intangibles at November 30, 2008 was as follows:

	Weighted Average Useful Life
Core technology	19 Years
Completed technology	13 Years
Product trade names	17 Years
Customer relationships	18 Years
Corporate trade names	Indefinite life

Note 8 - Debt.

Bank Borrowing In connection with the Merger, the Company entered into a credit agreement dated July 11, 2007 for a $6,165.0 million senior secured term loan facility, or the Tender Facility , pursuant to which Purchaser borrowed $4,181.0 million to finance a portion of the Offer and pay related fees and expenses.

The Company refinanced all amounts borrowed under the Tender Facility at the Closing Date of the Merger. On the Closing Date, the Company refinanced the Tender Facility with senior secured credit facilities (which include term loan facilities, a cash flow revolving facility and an asset based revolving credit facility), senior notes, senior subordinated notes and unsecured bridge facilities. The senior secured cash flow facility and all of the notes are guaranteed by the Company subject to certain exceptions, and each of its existing and future wholly-owned domestic subsidiaries. The senior secured asset-based facility is guaranteed by the Company and secured, subject to certain exceptions, by a first-priority security interest in substantially all of the Company s assets and the assets of subsidiary borrowers that consist of all accounts receivable, inventory, cash, deposit accounts, and certain related intangible assets. The facilities and notes bear interest at the rates set forth below. Interest is payable in cash, except with respect to the Company s ability to elect to pay PIK (Payment-in-kind) interest, rather than cash interest, on the senior toggle notes through October 15, 2012 for any interest period other than the initial interest period. The Company has not made this election at November 30, 2008. The terms and book value of each instrument at November 30, 2008 are set forth below:

(Dollars and Euros in millions)	**Maturity Date**	**Interest Rate**	**Currency**	**November 30, 2008**	**Premium on Notes at November 30, 2008**
Debt Instruments					
European facilities		Primarily Euribor + 1.40%	Euro	35.2 $ 44.7	
Term loan facility	March 25, 2015	Libor + 3.00%	US Dollars	$ 2,316.5	
Term loan facility	March 25, 2015	Libor + 3.00%	Euro	866.3 $ 1,099.9	
Cash flow revolving credit facility	September 25, 2013	Libor + 2.75%	US Dollars	$	
Cash flow revolving credit facility	September 25, 2013	Libor + 2.75%	Euro		
Asset-based revolving credit facility	September 25, 2013	Libor + 1.75%	US Dollars	$ 165.4	
Senior cash pay notes	October 15, 2017	10%	US Dollars	$ 775.0	$ 2.1
Senior toggle notes	October 15, 2017	10 $^{3/8}$% / 11 $^{1/8}$ %	US Dollars	$ 775.0	$ 1.1
Senior subordinated notes	October 15, 2017	11 $^{5/8}$%	US Dollars	$ 1,015.0	$ 2.2

Biomet, Inc. and Subsidiaries Notes to Condensed Consolidated Financial Statements (Unaudited) (continued)

Note 8 - Debt, Continued.

The Company currently elects to use 3-month Libor for setting the interest rates on its U.S. Dollar and Euro term loans. The 3-month Libor rates for the U.S. Dollar and Euro in effect as of November 30, 2008 were 3.76% and 5.14%, respectively. The term loan facilities require quarterly principal payments equal to one quarter percent (0.25%) of the original principal balance (equal payments each quarter) which commenced on the last business day of December 2007, and continue on the last business day of each calendar year quarter with the remaining outstanding principal due on the maturity date. The Company made required payments of $5.9 million both June 30, 2008 and September 30, 2008 for the U.S. Dollar denominated term loan facility, and made required payments of $3.4 million and $3.0 million on June 30, 2008 and September 30, 2008, respectively, for the Euro denominated term loan facility. There were borrowings under the asset-based revolver of $165.4 million as of November 30, 2008. The cash flow and asset-based revolvers and the notes do not have terms for mandatory principal pay downs. To calculate the U.S. Dollar equivalent on outstanding balances for disclosure purposes, the Company used a currency conversion rate of 1 Euro to $1.2697, which represents the currency exchange rate from Euros to U.S. Dollars on November 30, 2008.

During the quarter ended November 30, 2008, Lehman Brothers Holdings Inc. (Lehman), whose subsidiaries have a $41.5 million credit commitment across the Company s domestic revolving borrowing base, filed for bankruptcy. During the quarter, the Company submitted borrowing requests for $175.0 million from its senior secured asset-based revolving facility of which $165.4 million in net borrowing proceeds were received from the administration agent. The difference between the borrowed amount and the requested amount reflects Lehman s election to not fund its pro rata share of the borrowing as required under its commitment to the facility. As a result, the Company does not expect that Lehman will fund its pro rata share of any future borrowing requests. Also, one of the Company s subsidiaries has a bilateral revolving credit facility with Fortis Bank. The Company was informed during the quarter ended November 30, 2008 by the bank that due to the subsidiary s limited usage of the facility, the size of the commitment was being reduced from 100.0 million to 50.0 million. Subsequent to November 30, 2008, the reorganized Fortis Bank initiated conversations to increase the facility to the original commitment of 100.0 million. The Company does not expect these reductions to impact liquidity or the Company s business operations. Based on the above, the Company s revolving borrowing base available under all debt facilities at November 30, 2008 was $560.0 million, which is net of the amount the Company believes will not be funded by Lehman and borrowing base limitations as it relates to the senior secured asset-based revolving facility.

Note 9 - Share-based Compensation and Stock Plans.

The Company adopted SFAS 123(R), *Share-Based Payment*, (SFAS 123(R)) to record share-based payment expense on June 1, 2006 using the modified prospective method. SFAS 123(R) requires the fair value of all share-based payments to employees, including stock options, to be expensed based on their fair value over the required award service period. The Company s share-based payments consist of stock options. For the Company s non-employee distributors, share-based expense is recorded in accordance with EITF No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquisition, or in Conjunction with Selling, Goods or Services*. Prior to the Merger, the Predecessor Company's Board of Directors modified certain stock options to change the exercise price to the fair market value on the date it was granted by adding a cash component paid in January 2008 for the difference from the original grant price to the amended grant price of $46.00 per share (related to predecessor options). In addition, on July 11, 2007, the Predecessor Company's Board of Directors cancelled all outstanding stock options and paid the difference between the amended grant price and $46.00 per share (the offering price) in cash in conjunction with the Merger. The total amount expensed related to Predecessor Company grants was $112.8 million, with amounts recorded as cost of sales, selling, general, and administrative, and research and development in the Company s results of operations for the period June 1, 2007 to July 11, 2007. The first payment occurred on July 17, 2007 for $103.0 million, and the second payment was made on January 11, 2008 for $9.8 million.

Share-based compensation expense recognized was $11.6 million and $18.8 million for the three and six months ended November 30, 2008, respectively. Share-based compensation expense recognized for the period June 1, 2007 to July 11, 2007 was $112.8 million. There was no share-based compensation expense recognized for the three months ended November 30, 2007, or for the period July 12, 2007 to November 30, 2007.

Note 10 - Income Taxes (Benefit).

Effective June 1, 2007, the Company adopted FIN 48. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax contingencies and the tax position taken, or expected to be taken, in a tax return. The amount of unrecognized tax benefits at November 30, 2008 was $52.4 million, $39.1 million of which would impact the Company s effective tax rate, if recognized. The Company continues to record the liability for unrecognized tax benefits as a long-term liability as it does not expect significant payments to occur or the total amount of unrecognized tax benefits to materially change over the next twelve months.

The Company is currently under audit by the U.S. Internal Revenue Service (IRS) for fiscal years ended May 31, 2005 and 2006. However, based upon the status of the IRS field audit, the company cannot reasonably estimate the potential changes to its unrecognized tax benefits.

The effective income tax rate increased to 39.3% for the six months ended November 30, 2008 compared to 16.3% for the period of July 12, 2007 through November 30, 2007. This year-over-year increase was primarily due to the following items incurred in fiscal 2008 that are not deductible for tax purposes: (1) $479.0 million of in-process research and development expense related to the Merger, (2) a portion of the $26.9 million Department of Justice settlement, and (3) $51.5 million of Merger-related expenses. The effective income tax rate increased to 43.9% for the three months ended November 30, 2008 compared to 25.4% for the three months ended November 30, 2007. This increase was primarily due to the $86.2 million in process research and development expense related to the Merger being not deductible for tax purposes in the prior year and changes in the Company s mix of profits and losses in certain international and domestic jurisdictions in the current year.

Note 11 - Segment Reporting.

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 softgoods and bracing products, sports medicine 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 International. Major markets included in the international geographic market are Canada, South America, and the Pacific Rim.

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Biomet, Inc. and Subsidiaries Notes to Condensed Consolidated Financial Statements (Unaudited) (continued)

Net sales of musculoskeletal products by product category are as follows *(in millions)*:

	Three Months Ended November 30, 2008	Three Months Ended November 30, 2007	Six Months Ended November 30, 2008	July 12 - November 30, 2007 (Successor)	June 1 - July 11, 2007 (Predecessor)
Net sales by product:					
Reconstructive	$ 483.3	$ 454.1	$ 932.6	$ 662.5	$ 178.1
Fixation	58.0	56.8	118.3	88.2	27.1
Spinal	55.3	51.1	106.5	79.7	24.9
Other	46.2	45.2	92.4	65.4	18.7
Total	$ 642.8	$ 607.2	$ 1,249.8	$ 895.8	$ 248.8

	Three Months Ended November 30, 2008	Three Months Ended November 30, 2007	Six Months Ended November 30, 2008	July 12 - November 30, 2007 (Successor)	June 1 - July 11, 2007 (Predecessor)
Net sales by geographic segment:					
United States	$ 379.5	$ 347.0	$ 747.9	$ 527.7	$ 156.2
Europe	195.4	196.5	364.8	268.3	70.8
International	67.9				