

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

BIOMET INC

CIK: **351346** | IRS No.: **351418342** | State of Incorporation: **IN** | Fiscal Year End: **0531**
Type: **10-Q** | Act: **34** | File No.: **000-12515** | Film No.: **94500612**
SIC: **3842** Orthopedic, prosthetic & surgical appliances & supplies

Business Address
*AIRPORT INDUSTRIAL PARK
P O BOX 587
WARSAW IN 46581-0587
2192676639*

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 November 30, 1993.

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.)

Airport Industrial Park, P.O. Box 587, Warsaw, Indiana 46581-0587

(Address of principal executive offices)

(219) 267-6639

(Registrant's telephone number, including area code)

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

The number of shares outstanding of each of the issuer's classes of common stock, as of November 30, 1993:

Common Shares - No Par Value (Class)	115,189,191 Shares (Number of Shares)
---	--

Rights to Purchase Common Shares (Class)	115,189,191 Rights (Number of Shares)
---	--

The Index to Exhibits is at page _____ in the sequential numbering system.

Total pages: _____.

BIOMET, INC.

CONTENTS

	Pages
Part I. Financial Information	
Item 1. Financial Statements:	
Consolidated Balance Sheets	1-2
Consolidated Statements of Income	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5-6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7-9
Part II. Other Information	10
Signatures	11
Index to Exhibits	12

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BIOMET, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

as of November 30, 1993 and May 31, 1993

(in thousands)

ASSETS

	November 30, 1993	May 31, 1993
	-----	-----
Current assets:		
Cash and cash investments	\$ 73,895	\$ 44,579
Short-term investments	46,476	49,044
Accounts and notes receivable, net	81,790	84,708
Inventories (Note 2)	88,242	83,003
Prepaid expenses and other	9,662	9,705
	-----	-----
Total current assets	300,065	271,039
	-----	-----
Property, plant and equipment, at cost	79,752	77,678
Less, Accumulated depreciation	28,152	24,609
	-----	-----
Property, plant and equipment, net	51,600	53,069
	-----	-----
Intangible assets, net	10,575	11,417
Excess acquisition cost over fair value		
of acquired net assets, net	8,787	9,638
Investments in affiliates	3,921	3,896
Other assets	5,685	5,350

	-----	-----
Total assets	\$ 380,633	\$ 354,409
	=====	=====

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

BIOMET, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

as of November 30, 1993 and May 31, 1993

(in thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY

	November 30, 1993	May 31, 1993
	-----	-----
Current liabilities:		
Short-term borrowings	\$ 2,207	\$ 2,436
Accounts payable	12,048	12,959
Accrued income taxes		11,717
Accrued wages and commissions	7,065	7,227
Other accrued expenses	12,566	11,828
	-----	-----
Total current liabilities	45,603	46,652
Long-term liabilities:		
Deferred federal income taxes	2,564	2,564
Other liabilities	3,523	3,874
	-----	-----
Total liabilities	51,690	53,090
	-----	-----
Contingencies (Note 5)		
Shareholders' equity:		
Common shares (Note 3)	47,331	46,829
Additional paid-in capital	10,409	13,106
Retained earnings	274,738	242,618
Cumulative translation adjustment	(3,535)	(1,234)
	-----	-----
Total shareholders' equity	328,943	301,319
	-----	-----
Total liabilities and shareholders' equity	\$ 380,633	\$ 354,409
	=====	=====

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

BIOMET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

for the six and three month periods ended November 30, 1993 and 1992

(in thousands, except earnings per share)

Six Months Ended		Three Months Ended	
November 30,		November 30,	
1993	1992	1993	1992
----	----	----	----

Net sales	\$177,206	\$160,554	\$90,313	\$82,424
Cost of sales	54,839	50,427	27,869	26,088
	-----	-----	-----	-----
Gross profit	122,367	110,127	62,444	56,336
Selling, general and administrative expenses	65,531	58,822	33,260	29,800
Research and development expense	10,104	8,757	5,074	4,337
	-----	-----	-----	-----
Operating income	46,732	42,548	24,110	22,199
Other income, net	2,096	2,240	1,344	994
	-----	-----	-----	-----
Income before income taxes	48,828	44,788	25,454	23,193
Provision for income taxes (Note 5)	16,708	14,311	8,665	7,319
	-----	-----	-----	-----
Net income	\$ 32,120	\$ 30,477	\$16,789	\$15,874
	=====	=====	=====	=====
Earnings per share, based on the weighted average number of shares outstanding during the periods presented	\$.28	\$.27	\$.15	\$.14
	=====	=====	=====	=====
Weighted average number of shares	115,308	114,739	115,308	114,739
	=====	=====	=====	=====

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

BIOMET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the six months ended November 30, 1993 and 1992

(in thousands)

	1993	1992
	----	----
Cash flows from (used in) operating activities:		
Net income	\$ 32,120	\$ 30,477
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	4,036	3,685
Amortization	2,660	1,907
Gain on sale of marketable securities, net	(897)	(639)
Changes in current assets and current liabilities:		
Accounts and notes receivable, net	1,864	(4,493)
Inventories	(6,674)	(18,942)
Prepaid expenses and other	(68)	(1,124)
Accounts payable	(463)	(1,171)
Accrued income taxes	(304)	3,301
Accrued wages and commissions	(128)	61
Other accrued expenses	850	(157)
	-----	-----
Net cash from operating activities	32,996	12,905
	-----	-----
Cash flows from (used in) investing activities:		
Cash proceeds from sale of marketable securities	7,460	8,684
Purchase of marketable securities	(3,994)	(15,718)
Capital expenditures	(3,141)	(9,503)

Cash invested in affiliates	(25)	(875)
Payments on patents capitalized	--	(1,822)
Increase in other assets	(1,539)	(1,073)
Other	(226)	79
	-----	-----
Net cash used in investing activities	(1,465)	(20,228)
	-----	-----
Cash flows from (used in) financing activities:		
Issuance of common shares	502	1,348
Purchase of treasury shares	(2,697)	--
Decrease in short-term borrowings	(87)	--
Payment of long-term debt	--	(4,429)
	-----	-----
Net cash used in financing activities	(2,282)	(3,081)
	-----	-----
Effect of exchange rate changes on cash	67	(302)
	-----	-----
Increase (decrease) in cash and cash investments	29,316	(10,706)
Cash and cash investments, beginning of year	44,579	57,878
	-----	-----
Cash and cash investments, end of period	\$ 73,895	\$ 47,172
	=====	=====

The accompanying notes are a part of the consolidated financial statements.
BIOMET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: OPINION OF MANAGEMENT.

In the opinion of management, the information furnished herein includes all adjustments necessary to reflect a fair statement of the interim periods reported. The May 31, 1993 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles.

NOTE 2: INVENTORIES.

Inventories at November 30, 1993 and May 31, 1993 are as follows:

	November 30, 1993	May 31, 1993
	-----	-----
	(in thousands)	
Raw materials	\$12,564	\$11,374
Work in process	7,422	8,041
Finished goods	40,654	41,161
Consigned inventory	27,602	22,427
	-----	-----
	\$88,242	\$83,003
	=====	=====

NOTE 3: COMMON SHARES.

During the six months ended November 30, 1993, the Company issued 201,139 common shares upon the exercise of outstanding stock options for proceeds aggregating \$501,670. The Company purchased 300,000 treasury shares during the six month period ended November 30, 1993 for \$2,696,875. For financial reporting purposes, the treasury shares are accounted for as retired.

NOTE 4: INCOME TAXES.

Effective June 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" which requires a change from the deferred to the liability method of computing deferred income taxes. The impact of this change was immaterial to the consolidated financial statements. 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 tax exempt income and tax credits.

BIOMET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, concluded

NOTE 5: CONTINGENCIES.

In February 1990, Dr. Pedro A. Ramos filed a complaint against the Company alleging that the Company had infringed a patent issued to him. Dr. Ramos was seeking a royalty on sales of the Company's Bipolar articulating hip prosthesis, costs and enhanced damages for the alleged willful infringement. During April 1993, the matter was tried before a judge of the United States District Court for the Southern District of Florida, and on September 10, 1993 the judge entered a final judgment and permanent injunction, which concluded the patent of Dr. Ramos was valid and was willfully infringed by the Company. The judgment awarded Dr. Ramos \$5.3 million plus costs and accrued interest, which represented the trebling of a \$1,770,000 compensatory damage award. The Company, after consultation with legal counsel, believes the Court erred in its finding and that the judge's opinion is contrary to the facts and applicable law. The Company plans to vigorously pursue its rights of appeal and is in the process of filing the appeal. Although the ultimate outcome of this matter cannot be determined, management of the Company, after consultation with legal counsel, believes the judgment against the Company will be reversed on appeal. Accordingly, no provision for any liability (except for accrued legal costs) that might result from this matter has been made in the consolidated financial statements.

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

FINANCIAL CONDITION AS OF NOVEMBER 30, 1993

As of November 30, 1993, the Company's working capital position remained strong, increasing by \$30,075,000 during the first six months of fiscal year 1994 to \$254,462,000 and resulting in a working capital ratio of 6.6 to 1. This increase in working capital is principally attributable to the operating results experienced by the Company during the first six months of fiscal year 1994. Cash and short-term investments increased during the first six months by \$26,748,000 to \$120,371,000. The Company's cash and short-term investments, together with anticipated cash flow from operations, are expected to be adequate to fund all anticipated capital requirements.

Accounts receivable decreased by \$2,918,000 and inventories increased by \$5,239,000. Inventories have been increased to support the recent introduction of several new products including the Maxim Total Knee System and the Arthrotek Integrated Endoscopy System (IES 1000). The cost of property, plant and equipment increased \$2,074,000 during the first six months of fiscal 1994. Included in the aforementioned changes were decreases in accounts receivable, inventories and property, plant and equipment of approximately \$148,000, \$385,000 and \$159,000, respectively, attributable to the decrease from May 31, 1993 to November 30, 1993 in the exchange rates used to convert the financial statements of the Company's foreign subsidiaries from their functional currency to the U.S. Dollar. These decreases did not affect the Company's earnings during the past six-month period because foreign currency translation adjustments to balance sheet items are recognized directly in shareholders' equity on the Company's consolidated balance sheet. The Company will continue

to be exposed to the effects of foreign currency translation adjustments.

Total liabilities decreased slightly to \$51,690,000 at the end of the second quarter of fiscal 1994.

Shareholders' equity increased \$27,624,000 principally due to the Company's first six months earnings, offset by a decrease of \$2,301,000 in the cumulative translation adjustment between periods presented and the purchase of treasury shares.

On September 17, 1993 the Company's Board of Directors authorized the investment of up to \$25 million in the outstanding Common Shares of the Company in open market or privately negotiated transactions. The number of shares purchased, if any, will be dependent upon market conditions. Purchases may be made from time to time between September 17, 1993 and September 16, 1994. During the second quarter of fiscal 1994, the Company purchased 300,000 shares for \$2,696,875 which have been accounted for as retired shares for financial reporting purposes.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED NOVEMBER 30, 1993
AS COMPARED TO THE SIX MONTHS ENDED NOVEMBER 30, 1992

Net sales increased 10% to \$177,206,000 for the six month period ended November 30, 1993, from \$160,554,000 for the same period last year. The Company's U.S.-based revenue increased 14% to \$139,189,000 during the first six months, while foreign sales for the first six months decreased 1% to \$38,017,000. For the first six months, Biomet's foreign sales were adversely affected by approximately \$4,900,000 due to a stronger U.S. Dollar relative to the British Pound Sterling.

Biomet's worldwide reconstructive device sales during the first six months of fiscal 1994 were \$101,659,000, representing a 15% increase compared to the first six months of fiscal year 1993. This increase was primarily a result of Biomet's continued penetration of the reconstructive device market led by the recently introduced Maxim Total Knee System. Sales of Electro-Biology, Inc.'s products were \$42,392,000 for the first six months of fiscal 1994, representing a 5% increase as compared to the same period in 1993. This increase was largely attributable to increased demand for Orthofix devices. The Company's "other products" revenues totaled \$33,155,000, representing a 4% increase over the first six months of fiscal year 1993, primarily as a result of increased sales of Arthrotek's IES 1000 System and Lorenz's oral-maxillofacial implants.

Cost of sales decreased marginally as a percentage of net sales from 31.4% for the first six months of fiscal 1993 to 30.9% for the first six months of fiscal 1994 due to the increase in reconstructive device sales. Selling, general and administrative expenses increased slightly as a percentage of net sales from 36.6% to 37.0% for the first six months. This increase is attributable to increased marketing efforts through incentive commission programs for the Company's domestic distributors. The increase in research and development expenditures to \$10,104,000 during the first six months reflects Biomet's commitment to remain competitive through technological advancements and to capitalize on future opportunities available within the orthopedic market. Operating income increased 10% from \$42,548,000 for the first six months of fiscal 1993 to \$46,732,000 for the first six months of fiscal 1994, corresponding to the increase in net sales. Other income decreased during the first six months of fiscal 1994 principally because of lower investment interest rates available to the Company, despite the increase in cash and short-term investments. These factors resulted in a 5% increase in net income for the first six months of fiscal 1994 as compared to the same period in fiscal 1993, increasing from \$30,477,000 to \$32,120,000 and a 4% increase in earnings per share to \$.28 compared to \$.27 for last year.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED NOVEMBER 30, 1993

Net sales increased 10% to \$90,313,000 for the second quarter of fiscal year 1994, as compared to \$82,424,000 for the same period last year. Operating income rose 9% from \$22,199,000 for the second quarter of fiscal 1993, to \$24,110,000 for the second quarter of fiscal 1994. During the second quarter, net income increased 6% to \$16,789,000 as compared to \$15,874,000 for the same period last year. Earnings per share increased 7% from \$.14 per share for the second quarter of fiscal 1993, to \$.15 per share for the same period of fiscal 1994. The business factors resulting in these changes and relevant trends affecting the Company's business during the periods in question are comparable to those described in the preceding discussion for the six-month period.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

See Item 1 of Form 10-Q for the period ended August 31, 1993.

Item 6. Exhibits and Reports on Form 8-K

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

SIGNATURES

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

BIOMET, INC.

 (Registrant)

DATE: 1/14/94 BY: /s/ GREGORY D. HARTMAN

 Gregory D. Hartman
 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 -----	Sequential Numbering System Page Number 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 2, 1989. (Incorporated by reference to Exhibit 4 to Biomet, Inc. Form 8-K Current Report dated December 22, 1989, File No. 0-12515).

- (11) No exhibit.
- (15) No exhibit.
- (18) No exhibit.
- (19) No exhibit.
- (20) No exhibit.
- (23) No exhibit.
- (24) No exhibit.
- (25) No exhibit.
- (28) No exhibit.