ConMed®
CORPORATION

2002

ANNUAL REPORT

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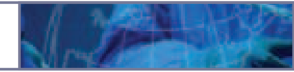
Letter to Shareholders: The Year in Review



2002 WAS A RECORD YEAR FOR CONMED.

We experienced record sales, adding to our unbroken string of sales growth in each of our fifteen years as a public company. Our businesses produced record earnings. We improved our balance sheet and executed on our strategy of growing revenues and earnings through the sales of market-leading products that meet the needs of our physician and hospital customers. Although our fourth quarter was not everything we had hoped it would be, the full year 2002 was still a very successful one for us even in the face of a down economy.

The year also presented many milestones for CONMED, prompting us to reflect on our history and to reaffirm the principles that have guided us since our operations began thirty years ago. On August 20, 2002, CONMED celebrated its 15th year since becoming a public company by opening trading at NASDAQ. Likewise, this is the fifth year since CONMED's acquisition of Linvatec, a transaction which increased CONMED's annual sales by almost $200 million, from $139.6 million to $339.3 million. While this was a dramatic increase, these figures seem small compared to the levels we are reaching now; we expect revenues for 2003 to approach the $500 million mark.

During the year, several milestones marked these achievements. Forbes Magazine selected CONMED as one of the 200 best small companies in America, affording a measure of recognition we had not previously received. Similarly, we were featured on a segment of the "Wake Up Call" business program on CNBC, which recognized our market-leading position in the surgical product market, and highlighted our new PowerPro® line of powered surgical instruments. In an age in which too many companies have been in the headlines for all of the wrong reasons, the attention we have received is flattering. More importantly, the recognition has been for the right reasons: a history of solid performance.

PHOTOS: ALAN PERLMAN PHOTOGRAPHY

Eugene R. Corasanti and Joseph J. Corasanti celebrate the 15th Anniversary of CONMED's listing on NASDAQ.

BioCuff PowerPro® Electric II Smoke Evacuator

While we welcome the recognition, we have not allowed this to distract us from our mission, which is to provide long-term growth in revenues and earnings. Our record of delivering this growth for each of the fifteen years CONMED has been a public company is no accident. It is a result of our continued focus on the fundamentals: the delivery of products and service at the speed and with the attentiveness that our customers expect and require; the cost-effective manufacture of quality products; the consistent development of innovative new products; acquisitions of product lines which fold in with or complement our existing offerings; and sound financial management. During 2002, we continued to focus on each of these areas.

To ensure that our brand names continue to be among the most widely recognized in their fields requires the continual improvement of existing products, and the development and introduction of a steady stream of new products in all of our businesses. We continued to introduce new products throughout the year in all of our product areas, as more fully described in the body of this Annual Report.

CONMED INTEGRATED SYSTEMS

ICU Controller Nurse's Assistant® Integrated Operating Room Solutions

Over the years, we have also increased our revenues through a series of acquisitions. Where conventional wisdom cautions that more than half of all mergers are a failure or otherwise fall short of performing to expectations, our track record of integrating acquisitions is an unmatched history of success. The rationales for the acquisitions vary widely. Some acquisitions have increased market share. Some acquisitions have brought new technologies, or allowed us to expand into new markets. And still others have permitted us to leverage our distribution and sales channels.

The past year has been no different. By year-end, we had completed several important acquisitions. Our acquisition of Core Dynamics will solidify our position as a strong and rapidly growing number three in the Endoscopy field. Our acquisitions of Val Med and Nortrex have formed our sixth business unit: CONMED Integrated Systems (CMIS). CMIS provides a turn-key solution for hospital and surgery centers for the custom design and installation of ceiling-mounted pendant supports, and surgical lights. CONMED Integrated Systems will also offer the integrated control of video systems, insufflation and other capital equipment in the operating room through the Nurse's Assistant®, which delivers centralized control of operating room equipment in a single touch screen control panel. This new business unit will also take us into the intensive care market, through its offering of intensive care units and service arms. In addition, we announced in January 2003 our acquisition of Bionx Implants, a well-recognized manufacturer of self-reinforced polymer bioabsorbable suture anchors, screws, pins and other soft-tissue fixation devices for arthroscopic procedures. We anticipate that this transaction, which closed on March 10, 2003, will add to orthopedic revenues and also provide us with an exciting pipeline of new products.

We also maintained our focus on financial performance during 2002 and our results were impressive. Overall revenues grew 6% to $453.1 million. International sales as a percentage of overall sales were at their highest levels. For 2002, international sales were $132.8 million, or 29% of total sales. Our net income grew 40% to $34.2 million. While approximately one-half of this income growth is a result of an accounting change for goodwill amortization, the other half of the growth comes from operations of the business. Our focus on manufacturing, quality and innovation improved our financial performance in 2002, continuing the fifteen year trend of solid performance.

During 2002 we reduced our debt $79 million, with $13 million from internally generated cash flow and $66 million from the proceeds of an equity offering which we completed in May 2002. As a result, we reduced our interest costs. We also restructured our senior debt agreements to increase our liquidity and credit availability. We recently purchased some of our own bonds on the open market, and we expect to continue to reduce our interest expense in the coming year, whether through redeeming bonds or purchasing them on the open market.

As a result of these balance sheet improvements, our debt to book capitalization ratio improved, moving from 54% in 2001 to 40% at the end of 2002. In addition, credit rating agencies improved our credit ratings. It is our belief that a strong balance sheet helps solidify our operating performance, and our balance sheet became significantly stronger during 2002.

2003 will mark our 31st year of operations. Over the past 30 years, we have consistently increased virtually every measure of performance. Revenues have grown in each of the fifteen years in which CONMED has been a public company: from less than $10 million in 1986, to $453.1 million in 2002. Measured over those fifteen years, average annual revenue growth equals 27%. Likewise, during that same period, net income grew by an annual compound growth rate of 28%. During the fifteen years that it has been publicly traded, CONMED stock has increased in value on a split-adjusted basis from an IPO price in 1987 of $2.07 per share to the December 31, 2002 closing price of $19.59.

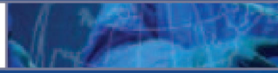
Reviewing where we have been, we are every bit as confident that we can continue to produce the growth and returns that we have seen in the past. It has now been five years since we acquired Linvatec from Bristol-Myers Squibb. During that period, we have increased the sales of our orthopedic products from non-existent prior to the acquisition of Linvatec to $276.2 million. Likewise, during the same period, we have taken our Endoscopy sales from $3.2 million to $36.8 million in 2002.

Our management team has never been stronger. All of our business units are poised for growth over the long term, both domestically and around the globe. CONMED is a company devoted to serving our customers' needs while improving our financial strength, a company with a track record of delivering results, a company with the stamina to thrive over the long term, and one whose sales are increasingly global in reach, with direct sales organizations in an increasing number of countries. We can expect revenues approaching $500 million in 2003, with continued focus on organic revenue growth and debt reduction in future years.

We look forward to the challenges awaiting us. We have delivered consistent growth in the past, and are as confident as we have ever been that we will continue to do so. We thank you for your continued trust and support.

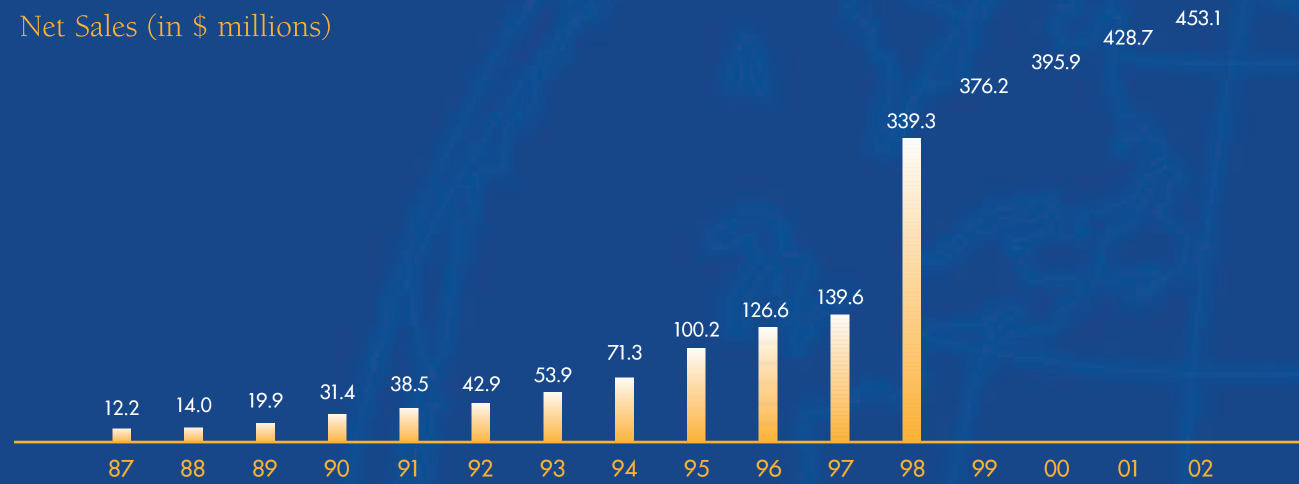
Eugene R. Corasanti
Chairman of the Board of Directors,
Chief Executive Officer

Joseph J. Corasanti
President,
Chief Operating Officer

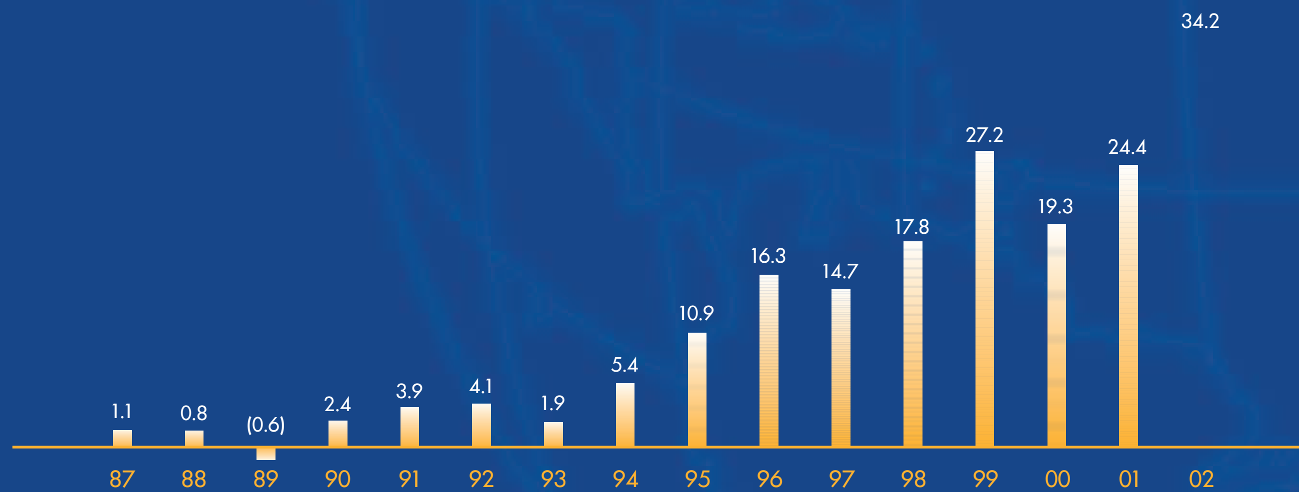


Financial Highlights

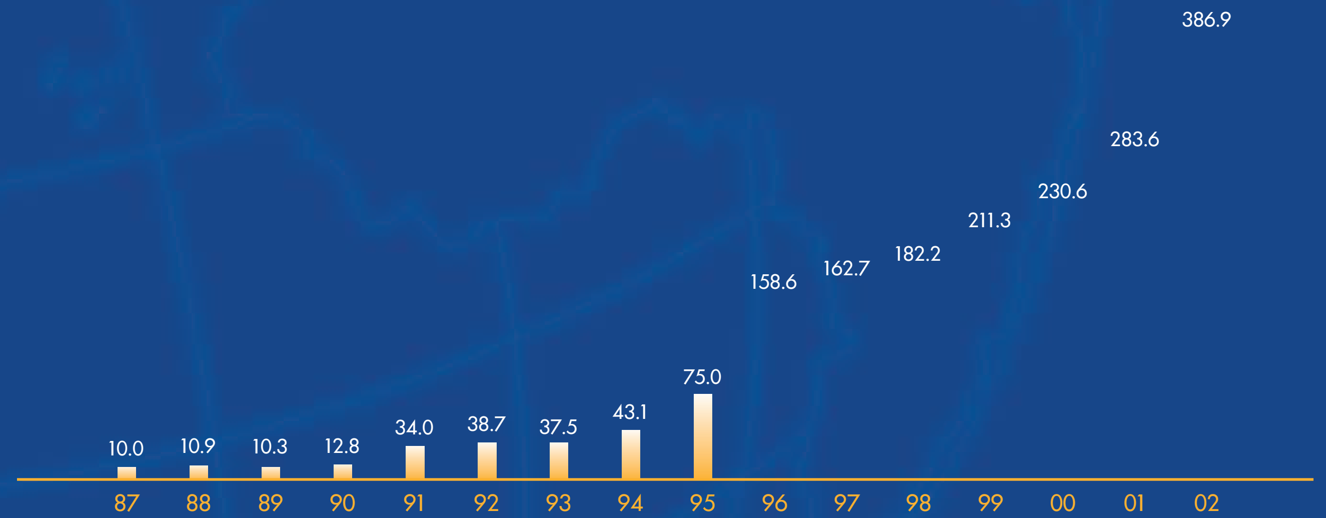
Net Sales (in $ millions)



Net Income* (in $ millions)



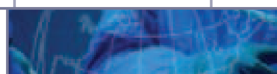
Shareholders' Equity (in $ millions)



*Excludes $34 million pre-tax non-recurring charge relating to Linvatec acquisition in 1997 and $5 million pre-tax litigation charge in 1993.

1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002

CONMED Acquisition History



Increasing Revenues Through Acquisitions: A Complement to Organic Growth
(in millions)

CONMED has employed strategic acquisitions to complement our organic growth. From entire companies to specific product lines, these acquisitions increased our market share within existing markets, allowed us to expand into new markets, established new technologies, or leveraged our distribution and sales channels. Our ability to vertically integrate each of these acquisitions has led to significant growth.

Year	Revenue
1987	$ 12.2
1988	$ 14.0
1989	$ 19.9
1990	$ 31.4
1991	$ 38.5
1992	$ 42.9
1993	$ 53.9
1994	$ 71.3
1995	$100.2
1996	$ 126.6
1997	$ 139.6
1998	$ 339.3
1999	$ 376.2
2000	$ 395.9
2001	$ 428.7
2002	$ 453.1

1987
IPO

1989
Aspen Laboratories, Inc.
Electrosurgery
Excalibur™
Sabre®
HandTrol®

1991
Concept Electrosurgery
Electrosurgery

1993
Andover Medical
ECG Electrodes
Cleartrace®
Fastrace®
Ultratrace®
Suretrace®
Snaptrace®
Dyna/Trace®
Invisatrace®

1994
Becton Dickinson
ECG Electrodes
ECG Backpad

1995
Birtcher Medical
Electrosurgery
ABC® Technology/
Hyfrecator®

Beacon (acquired by Birtcher in 1993)
Electrosurgery
Beamer™

Master Medical Corporation
IV Gravity Drip Controllers
STAT2®

1996
New Dimensions in Medicine (NDM)
ECG Electrodes
Electrosurgery
ClearSite®
ThermoGard®
Silvon®
Profile®

1997
Davol, Inc.
Suction Instruments & Tubing

1998
3M
Arthroscopy
Fluid Management System
87K System

Linvatec Corporation
Arthroscopy
Imaging
Powered Instruments
Hall Surgical®
Shutt®

1999
3M
Powered Instruments
Maxi-Driver™
Mini-Driver™

2000
Imagyn
Endoscopy
Reflex®

2001
Imagyn
Endoscopy
Detachatip®
Detachaport™
Articulator 35™
MicroLap®

2002
Core Dynamics
Endoscopy
Entree®

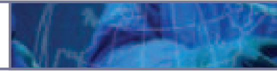
Val Med
Integrated Systems

Nortrex
Integrated Systems

2003
Bionx
Arthroscopy
Meniscus Arrow™

ARTHROSCOPY ➤ ELECTROSURGERY ➤ ENDOSCOPY ➤ IMAGING ➤ INTEGRATED SYSTEMS ➤ PATIENT CARE ➤ POWERED INSTRUMENTS

CONMED: A Global Presence



CONMED's international sales have been experiencing organic growth of approximately ten percent per year, a rate of growth higher than our domestic organic rate of growth. This reflects the opportunity that international markets present, and the return on the investments we have made to develop our international presence in manufacturing, sales and marketing.

We now manufacture in three countries outside the United States. In addition to our contract manufacturing facility in Juarez, Mexico, which has seen increased throughput during the past year, we have added manufacturing facilities in Montreal, Canada for our CONMED Integrated Systems business. The most recent addition to our list of manufacturing facilities, effective March 10, 2003, is the Bionx facility in Tampere, Finland, where our proprietary self-reinforced polymers are made.

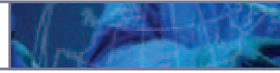
▲ Manufacturing/Distribution Sites
● Marketing/Educational Programs*
Direct Sales**
Distributors

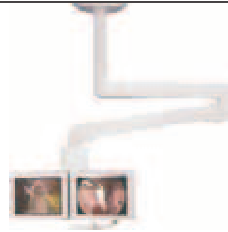
We have also strengthened our sales organizations internationally. We have direct sales organizations in eight countries, and a network of distributors providing sales, marketing and service to our customers in approximately 100 other countries. Our most recent efforts have been to introduce in 2003 a direct sales organization for our electrosurgery and endoscopy products in Canada. Likewise, in Australia, the direct sales organization which previously carried only our orthopedic products will also be carrying our electrosurgery and endoscopy products starting in 2003.

Our success in growing sales is a direct consequence of the quality and technology in every one of our products. And we are doing more to "get the message out" than we ever have in the past. We have made significant increases in our efforts to conduct training seminars with leading physicians all over the world, as reflected on the map on this page. Our brand-recognition is on the rise, and the return on this investment is reflected in the increased growth for our international sales.

* *Does not include extensive Marketing and Educational programs conducted throughout the United States.*

** *Not all product lines may be sold through direct sales organizations in indicated countries. For example, in Canada, all products are sold direct except Patient Care products.*



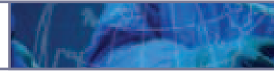


CONMED Integrated Systems offers hospitals and surgery center customers complete, fully-integrated turn-key solutions for today's OR environments and other patient critical care areas (ICU, Endo/GI/ACL, etc.), enabling increased efficiency and operating cost savings. Our customers can, with a single purchase order, purchase their needs for the 21st century state-of-the-art operating suite. From offering a unique centralized control of the equipment in the OR from outside the sterile field, to a wide range of telephone or internet conference media with digital image, CMIS offers:

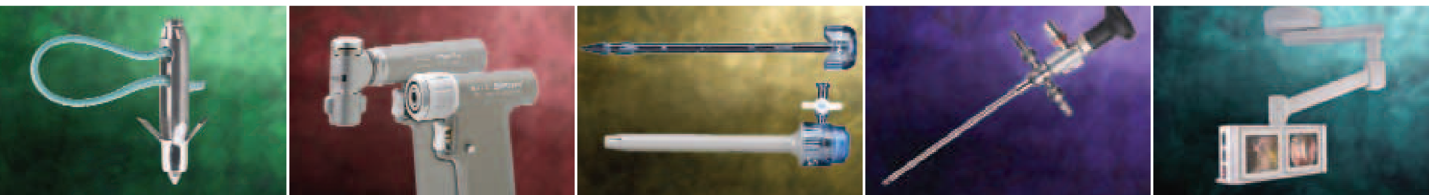
- Design/build/consulting services
- Lights
- Articulating ceiling-mounted service arms
- Integrated service managers

- Flat panel monitors
- Audio and video networking
- The Nurse's Assistant®, the revolutionary room management and video monitoring system for centralized control over lights, video, equipment and generators, room cameras, interhospital and inter-web conferencing
- Video imaging, from scopes to light sources to digital image capture and web-based diagnostics or telemedicine
- Fluid management systems
- Electrosurgical generators and other equipment
- Powered surgical instruments
- Endo-mechanicals
- Interface with Provation procedure documentation interface

New Products: A Continuing Tradition of Innovation



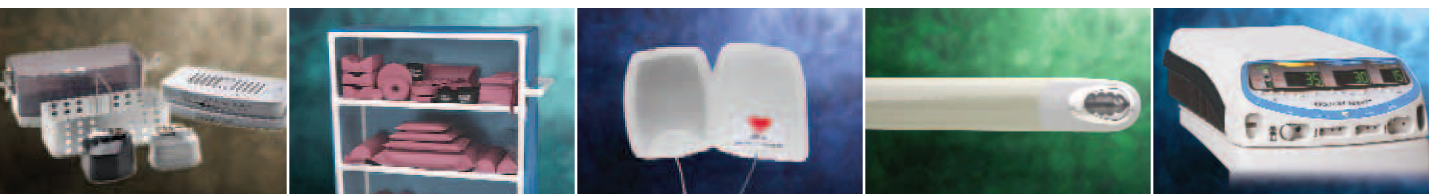
The advances in health care are driven by technology and innovation. To remain at the forefront of our markets, and to preserve our position as a technology leader, we devote significant efforts to the development and introduction of innovative products and technologies in all of our product areas. 2002 witnessed the introduction of a series of new products in each of our businesses.



UltraFix® Knotless MiniMite® Suture Anchor System | PowerPro® Electric II | Mini-5 Finesse Trocar Group | Quicklatch™ Arthroscope | Video Service Arm

In our Arthroscopy line, we introduced a series of products: the SuperRevo™ suture anchor for rotator cuff repair; the UltraFix® Knotless MiniMite® Suture Anchor System for arthroscopic shoulder instability procedures; the Trident Omega, now the third in our line of Trident tissue ablation and resection devices; the LightWave™ Ablator, an integrated ablator for arthroscopy which can be used in any standard electrosurgery; and the SE™ (Stress Equalization) Graft Tensioning System, which is designed to reduce the risk of loose ACL grafts.

In the Imaging area of arthroscopy, we were the first-to-market with a DVD/CD Dual Image Capture System, permitting surgeons to store still and motion video during even the most difficult video-assisted procedures. The VP 1500 Digital Documentation System provides state-of-the-art digital image capture,



PowerPro® Battery System | Airsoft™ Patient Positioners | PadPro™ Defibrillating Pads | Trident Omega | System 5000™ Generator

required for today's digital patient information management systems. We further expanded our Quicklatch™ arthroscopy line with new 4mm optical scopes, sheaths and bridging systems, whose patented design and ease of use offer performance and reliability unmatched in the market today.

For Powered Surgical Instruments, 2002 saw the introduction of the new PowerPro® Battery System, which features an innovative and patented system for charging the battery after sterilization, so that the battery holds its charge better than models which require a charge prior to sterilization. We also introduced the PowerPro® Electric II, an extension of the PowerPro® line for surgeons who prefer electric power. This system is referred to as the Mini Electric because it is compact, lightweight and designed for small bone, large bone and ACL procedures.

SuperRevo™ Suture Anchor | LightWave™ Ablator | Nurse's Assistant® | SE™ Graft Tensioning System | VP 1500 Digital Documentation System

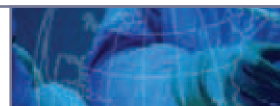
CONMED Electrosurgery also introduced two important new products. The new state-of-the-art electrosurgical generators were unveiled at the Medica Conference in Dusseldorf, Germany in November. Although the final validations were not completed in time for release in 2002, the two generators—the System 5000™ and System 2500™—deliver unique clinical benefits through proprietary electronics processing, which are the subject of a number of pending patent applications. When combined with our electrosurgical pencils and UltraClean® line of coated electrosurgical blades, our electrosurgery line is without equal in the market in terms of quality and value.

We also introduced our Mini-5 Finesse trocar for our Endoscopy group. This 5mm trocar is designed to fill the need for increasingly smaller instruments favored for laparoscopic surgeons, who seek out smaller instruments which leave a reduced incision, reducing recovery times and improving the cosmetic appearance of the patient after surgery.

Similarly, our Patient Care group introduced a new line of PadPro™ defibrillating pads responding to a growing demand for the placement of automatic defibrillators in malls, airports, planes and other public locales. Our Patient Care Group continued to expand its product offering with the introduction of our new line of Airsoft™ Patient Positioners, which are used to stabilize patient movement during surgery.

To be known as the Leader in Technology requires a steady stream of innovative products that our customers will use. During 2002 we introduced an impressive array of products, many of which are unsurpassed in their fields.

Market for CONMED's Common Stock and Related Stockholder Matters



Our common stock, par value $.01 per share, is traded on the Nasdaq Stock Market (symbol - CNMD). At December 31, 2002, there were 1,165 registered holders of our common stock and approximately 6,000 accounts held in "street name".

The following table shows the high-low last sales prices for the years ended December 31, 2001 and 2002, as reported by the Nasdaq Stock Market. These sales prices have been adjusted for a three-for-two split of our common stock effected in the form of a common stock dividend and paid on September 7, 2001 to shareholders of record on August 21, 2001.

	2001		2002	
Period	High	Low	High	Low
First Quarter	$ 15.92	$ 10.83	$ 25.00	$ 19.29
Second Quarter	18.00	13.08	27.00	22.25
Third Quarter	21.21	15.73	22.72	15.60
Fourth Quarter	21.01	16.53	21.52	18.10

We did not pay cash dividends on our common stock during 2001 and 2002. Our Board of Directors presently intends to retain future earnings to finance the development of our business and does not intend to declare cash dividends. Should this policy change, the declaration of dividends will be determined by the Board in light of conditions then existing, including our financial requirements and condition and the limitation on the declaration and payment of cash dividends contained in debt agreements.

Five Year Summary of Selected Financial Data

(In thousands, except per share data)

Years Ended December 31,	1998	1999	2000	2001	2002
Consolidated Statement of Income[1]:					
Net sales	$ 339,270	$ 376,226	$ 395,873	$ 428,722	$ 453,062
Income from operations[2][3]	61,167	74,796	64,464	68,958	79,349
Income before extraordinary loss[4][5]	19,377	27,159	19,314	24,406	35,095
Earnings per share before extraordinary loss:					
Basic	$ .86	$ 1.19	$ .84	$ 1.02	$ 1.28
Basic adjusted for SFAS 142	$ 1.07	$ 1.41	$ 1.08	$ 1.25	
Diluted	$ .84	$ 1.17	$ .83	$ 1.00	$ 1.26
Diluted adjusted for SFAS 142	$ 1.05	$ 1.39	$ 1.07	$ 1.23	
Weighted average number of common shares in calculating:					
Basic earnings per share	22,628	22,862	22,967	24,045	27,337
Diluted earnings per share	22,982	23,145	23,271	24,401	27,827
Other financial data:					
Depreciation and amortization	$ 23,601	$ 26,291	$ 29,487	$ 30,148	$ 22,370
Capital expenditures	12,924	9,352	14,050	14,443	13,384
Consolidated Balance Sheet Data:					
Working capital	$ 93,424	$ 109,526	$ 113,755	$ 44,712	$ 135,692
Total assets	628,784	662,161	679,571	701,608	742,140
Long-term debt (less current portion)	361,877	361,794	342,680	262,500	254,756
Total shareholders' equity	182,168	211,261	230,603	283,634	386,939

(1) Includes, based on the purchase method of accounting, the results of (i) the arthroscopy business acquired from 3M Company from November 1998; (ii) the powered instrument business acquired from 3M Company from August 1999; (iii) the minimally invasive surgical businesses acquired from Imagyn Medical Technologies, Inc. from November 2000 and July 2001; (iv) the businesses acquired in March and July 2002 related to our Patient Care and Endoscopy product lines; (v) the businesses acquired in October and November 2002 engaged in the design, manufacture and installation of integrated operating room systems and related equipment; in each such case from the date of acquisition.

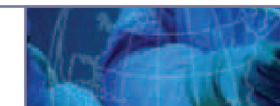
(2) Included in cost of sales for 1998, $3.0 million of incremental expense related to the excess of the fair value at the acquisition date of Linvatec inventory over the cost to produce; included in cost of sales for 1999, $1.6 million of incremental expense related to the excess of the fair value at the acquisition date over the cost to produce inventory related to the powered instrument business acquired from 3M; included in cost of sales for 2001, $1.6 million of transition expenses related to the July 2001 acquisition from Imagyn.

(3) Included in selling and administrative expense for 1999, a $1.3 million benefit related to a previously recorded litigation accrual which was settled on favorable terms; included in selling and administrative expense for 2000, a severance charge of $1.5 million related to the restructuring of our arthroscopy sales force; included in selling and administrative expense for 2002, a $2.0 million charge related to the settlement of a patent infringement case.

(4) Effective January 1, 2002, the provisions of SFAS 142 were adopted relative to the cessation of amortization for goodwill and certain intangibles. Had we accounted for goodwill and certain intangibles in accordance with SFAS 142 for all periods presented, income before extraordinary loss would have been $24,153 in 1998, $32,227 in 1999, $24,889 in 2000 and $30,058 in 2001; net income would have been $22,584 in 1998, $32,227 in 1999, $24,889 in 2000 and $30,058 in 2001.

(5) In March 1998 and August 2002, we recorded extraordinary losses of $1.6 million and $.9 million, respectively, related to the write-off of deferred financing fees on the early extinguishment of debt.

Management's Discussion and Analysis of Financial Condition and Results of Operations



The following discussion should be read in conjunction with the Five Year Summary of Selected Financial Data and our consolidated financial statements, which are included elsewhere in this Annual Report.

General

CONMED Corporation ("CONMED", "the Company", "we" or "us") is a medical technology company specializing in instruments, implants and video equipment for arthroscopic sports medicine and powered surgical instruments, such as drills and saws, for orthopedic, ENT, neurosurgery and other surgical specialties. We are a leading developer, manufacturer and supplier of RF electrosurgery systems used routinely to cut and cauterize tissue in nearly all types of surgical procedures worldwide, endoscopy products such as trocars, clip appliers, scissors and surgical staplers and a full line of ECG electrodes for heart monitoring and other patient care products. We also offer integrated operating room systems and intensive care unit service managers. Our products are used in a variety of clinical settings, such as operating rooms, surgery centers, physicians' offices and critical care areas of hospitals.

Critical Accounting Estimates

Preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the consolidated financial statements describes the significant accounting policies used in preparation of the consolidated financial statements. The most significant areas involving management judgments and estimates are described below and are considered by management to be critical to understanding the financial condition and results of operations of CONMED Corporation.

Revenue Recognition

We recognize revenue upon shipment of product and passage of title to our customers. Factors considered in our revenue recognition policy are as follows:

- Sales to customers are evidenced by firm purchase orders. Title and the risks and rewards of ownership are transferred to the customer when product is shipped.
- Payment by the customer is due under fixed payment terms. Even when the sale is to a distributor, payment to us is not contractually or implicitly delayed until the product is resold by the distributor.
- We place certain of our capital equipment with customers in return for commitments to purchase disposable products over time periods generally ranging from one to three years. In these circumstances, no revenue is recognized upon capital shipment and we recognize revenue upon the disposable product shipment.
- Product returns are only accepted at the discretion of the Company and in keeping with our "Returned Goods Policy". Product returns have not been significant historically. We accrue for sales returns, rebates and allowances based upon analysis of historical data.
- The terms of the Company's sales to customers do not involve any obligations for the Company to perform future services. Limited warranties are generally provided for capital equipment sales and provisions for warranty are provided at the time of product shipment.
- Amounts billed to customers related to shipping and handling are included in net sales. Shipping and handling costs of $8.1 million, $8.6 million and $7.5 million for the years ended 2000, 2001 and 2002, respectively are included in selling and administrative expense.
- We sell to a diversified base of customers around the world and, therefore, believe there is no material concentration of credit risk.
- We assess the risk of loss on accounts receivable and adjust the allowance for doubtful accounts based on this risk assessment. Historically, losses on accounts receivable have not been material. Management believes the allowance for doubtful accounts of $.9 million at December 31, 2002 is adequate to provide for any probable losses from accounts receivable.

Business Acquisitions

We completed acquisitions in 2002 with purchase prices totaling approximately $17.4 million and have a history of growth through acquisitions. The assets and liabilities of acquired businesses are recorded under the purchase method at their estimated fair values at the dates of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. We have accumulated goodwill of $262.4 million and other intangible assets of $180.3 million at December 31, 2002.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," ("SFAS 142"), goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment testing. The identification and measurement of goodwill impairment involves the estimation of the fair value of our business. The estimates of fair value are based on the best information available as of the date of the assessment, which primarily incorporate management assumptions about expected future cash flows and contemplate other valuation techniques. Future cash flows can be affected by changes in industry or market conditions or the rate and extent to which anticipated synergies or cost savings are realized with newly acquired entities. Intangible assets with a finite life are amortized over the estimated useful life of the asset. Intangible assets which continue to be subject to amortization are also evaluated on an annual basis to determine whether events and circumstances warrant a revision to the remaining period of amortization. An intangible asset is determined to be impaired when estimated future cash flows indicate the carrying amount of the asset may not be recoverable. Although no goodwill or other intangible asset impairment has been recorded to date, there can be no assurances that future impairment will not occur. (See Note 2 and Note 5 to the consolidated financial statements).

Pension Plans

We sponsor defined benefit pension plans for the Company and its subsidiaries. Major assumptions used in the accounting for these plans include the discount rate, expected return on plan assets and rate of increase in employee compensation levels. Assumptions are determined based on Company data and appropriate market indicators, and are evaluated each year as of the plans' measurement date. A change in any of these assumptions would have an effect on net periodic pension costs reported in the consolidated financial statements.

Lower market interest rates and plan asset returns have resulted in declines in pension plan asset performance and funded status. The discount rate was lowered from 7.0% to 6.75% reflecting current economic conditions. Pension expense in 2003 is expected to be negatively impacted by these changes. See Note 10 to the consolidated financial statements for further discussion.

Income Taxes

The recorded future tax benefit arising from net deductible temporary differences and tax carryforwards is $11.0 million at December 31, 2002. Management believes that our earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future income tax benefits.

In assessing the need for a valuation allowance, we estimate future taxable income, considering the feasibility of ongoing tax planning strategies and the realizability of tax loss carryforwards. Valuation allowances related to deferred tax assets can be impacted by changes to tax laws, changes to statutory tax rates and future taxable income levels. In the event we were to determine that we would not be able to realize all or a portion of our deferred tax assets in the future, we would reduce such amounts through a charge to income in the period that such determination was made. See Note 7 to the consolidated financial statements for further discussion.

Results of Operations

2002 Compared to 2001

The following table presents, as a percentage of net sales, certain categories included in our consolidated statements of income for the periods indicated:

Years Ended December 31,	2001	2002
Net sales	100.0%	100.0%
Cost of sales	47.7	47.7
Gross margin	52.3	52.3
Selling and administrative expense	32.8	31.3
Research and development expense	3.5	3.6
Income from operations	16.0	17.4
Interest expense, net	7.2	5.4
Income before income taxes and extraordinary loss	8.8	12.0
Provision for income taxes	3.1	4.3
Income before extraordinary loss	5.7%	7.7%

Sales for 2002 were $453.1 million, an increase of 5.7% compared to sales of $428.7 million in 2001. Excluding our acquisition of certain product lines from Imagyn in July 2001 (the "second Imagyn acquisition") and adjusting for constant foreign currency exchange rates, sales would have grown by approximately 2.3%.

- Sales in our orthopedic businesses grew 2.3% to $276.2 million in 2002 from $269.9 million in 2001. Adjusted for constant foreign currency exchange rates, orthopedic sales growth in 2002 would have been approximately 1.6% compared with 2001, as the value of the Euro strengthened in comparison with the dollar.
- Arthroscopy sales, which represented approximately 58.6% of total 2002 orthopedic revenues, grew 4.0% in 2002 to $161.9 million from $155.6 million in 2001, on strength in sales of disposable products and video equipment.
- Powered surgical instrument sales, which represented approximately 41.4% of total 2002 orthopedic revenues, remained flat at $114.3 million in 2002 and 2001. We believe the weakness in sales in the powered surgical instrument product line was a result of our aging battery-powered product offering which was replaced in March 2002 with our new PowerPro® battery-powered instrument product line. We believe that once PowerPro® becomes established in the marketplace, it will enable us to resume overall growth in powered surgical instrument sales. Additionally, during 2002 we entered into a distribution agreement with DePuy Orthopaedics, ("DePuy"), a Johnson & Johnson Company, which will enable the DePuy sales force to also sell PowerPro® which should aid sales growth in this product line.
- Patient care sales for 2002 were $69.7 million, a .9% increase from $69.1 million in 2001 as modest increases in sales of our ECG and other patient care product lines more than offset declines in sales of our surgical suction product lines which continue to face significant competition and pricing pressures.
- Electrosurgery sales for 2002 were $69.7 million, an increase of 4.2% from $66.9 million in 2001, driven by increases in disposable product sales.
- Endoscopy sales for 2002 were $36.8 million, an increase of 61.4% from $22.8 million in 2001. Excluding the impact of the second Imagyn acquisition in July 2001, as described in Note 2 to our consolidated financial statements, the increase in endoscopy sales was approximately 7.0%.
- Integrated operating room systems sales for 2002 were $.7 million as a result of two acquisitions discussed in Note 2 to our consolidated financial statements.

Cost of sales increased to $215.9 million in 2002 compared to $204.4 million in 2001, primarily as a result of the increased sales volumes described above. As discussed in Notes 2 and 12 to our consolidated financial statements, during 2001, we incurred various non-recurring charges in connection with the July 2001 Imagyn acquisition. These costs were primarily related to the transition in manufacturing of the Imagyn product lines from Imagyn's Richland, Michigan facility to our manufacturing plants in Utica, New York. Such costs totaled approximately $1.6 million and are included in cost of sales. Excluding the impact of these non-recurring expenses, cost of sales for 2001 was $202.8 million. Gross margin percentage for 2001, excluding the Imagyn-related charges, was 52.7%, slightly better than the 52.3%, experienced in 2002. The decrease in gross margin percentage in 2002 is a result of sales of sample PowerPro® product to the DePuy sales force, pursuant to a distribution agreement as discussed above, which were at gross margins lower than the margins realized for units sold to end-user customers, as well as certain unfavorable production variances experienced in 2002.

Selling and administrative expense increased to $141.7 million in 2002 as compared to $140.6 million in 2001. As a percentage of sales, selling and administrative expense totaled 31.3% in 2002 compared to 32.8% in 2001. During 2002, selling and administrative expense decreased by approximately $8.8 million, before income taxes, as a result of the adoption of SFAS 142. As discussed in Note 12 to the consolidated financial statements, we settled a patent infringement case which resulted in a fourth quarter 2002 charge to selling and administrative expense of $2.0 million, before income taxes. Excluding the impacts of the adoption of SFAS 142 and the patent litigation charge, selling and administrative expense in 2002 would have been approximately $148.5 million or 32.8% as a percentage of sales, the same as in 2001.

Research and development expense totaled $16.1 million in 2002 compared to $14.8 million in 2001. This increase represents continued research and development efforts primarily focused on product development in the electrosurgery and orthopedic product lines. As a percentage of sales, research and development was 3.6%, consistent with 3.5% in 2001.

Interest expense in 2002 was $24.5 million compared to $30.8 million in 2001. The decrease in interest expense is primarily a result of lower total borrowings outstanding during 2002 as compared to the same period a year ago, as borrowings have declined to $257.4 million at December 31, 2002 as compared to $335.9 million at December 31, 2001. The weighted average interest rates on our borrowings increased slightly to 6.93% at December 31, 2002 as compared to 6.31% at December 31, 2001 as borrowings under our senior credit facility were reduced while borrowings under our Senior Subordinated Notes remained at $130 million.

During 2002, we terminated our former senior credit agreement and entered into a new senior credit agreement. Accordingly, we recorded an extraordinary charge on the early extinguishment of debt, of approximately $.9 million, net of income taxes, to write-off the remaining unamortized deferred financing costs associated with the approximately three years remaining on the old senior credit agreement.

2001 Compared to 2000

The following table presents, as a percentage of net sales, certain categories included in our consolidated statements of income for the periods indicated:

Years Ended December 31,	2000	2001
Net sales	100.0%	100.0%
Cost of sales	47.5	47.7
Gross margin	52.5	52.3
Selling and administrative expense	32.4	32.8
Research and development expense	3.8	3.5
Income from operations	16.3	16.0
Interest expense, net	8.7	7.2
Income before income taxes	7.6	8.8
Provision for income taxes	2.7	3.1
Net Income	4.9%	5.7%

Sales for 2001 were $428.7 million, an increase of 8.3% compared to sales of $395.9 million in 2000. Excluding our acquisition of certain product lines from Imagyn in November 2000 (the "Imagyn acquisition") and July 2001, and adjusting for constant foreign currency exchange rates, sales would have grown by approximately 5.2%.

- Sales in our orthopedic businesses grew 4.3% to $269.9 million in 2001 from $258.8 million from 2000. Adjusted for constant foreign currency exchange rates, orthopedic sales growth in 2001 would have been approximately 5.5% compared with 2000, as the value of the Canadian dollar and certain European currencies weakened in comparison with the dollar.
- Arthroscopy sales, which represented approximately 57.7% of total 2001 orthopedic revenues, grew 7.3% in 2001 to $155.6 million from $145.0 million in 2000, on strength in sales of disposable products and video equipment.
- Powered surgical instrument sales, which represented approximately 42.3% of total 2001 orthopedic revenues, grew 1.0% to $114.3 million in 2001 from $113.7 million in 2000. We believe the weakness in sales in the powered surgical instrument product line was a result of our aging battery-powered product offering which has been replaced by our new PowerPro® battery-powered instrument product line, as we describe above.
- Patient care sales for 2001 were $69.1 million, a 1.3% increase from $68.2 million in 2000, as modest increases in sales of our ECG and other patient care product lines more than offset declines in sales of surgical suction product lines which occurred as a result of significant competition and pricing pressures.
- Electrosurgery sales for 2001 were $66.9 million, an increase of 7.0% from $62.5 million in 2000, driven by increases in electrosurgical pencil and other disposable product sales.
- Endoscopy sales for 2001 were $22.8 million, an increase of 256% from $6.4 million in 2000. Excluding the impact of the Imagyn acquisitions in November 2000 and July 2001, as described in Note 2 to our consolidated financial statements, the increase in endoscopy sales was approximately 13.0%.

Cost of sales increased to $204.4 million in 2001 compared to $188.2 million in 2000, primarily as a result of the increased sales volumes described above. As discussed in Notes 2 and 12 to our consolidated financial statements, during 2001, we incurred various non-recurring charges in connection with the July 2001 Imagyn acquisition. These costs were primarily related to the transition in manufacturing of the Imagyn product lines from Imagyn's Richland, Michigan facility to our manufacturing plants in Utica, New York. Such costs totaled approximately $1.6 million and are included in cost of sales. Excluding the impact of these non-recurring expenses, cost of sales for 2001 was $202.8 million. Gross margin percentage for 2001, excluding the Imagyn-related charges, was 52.7%, a slight improvement as a result of increased sales volumes, compared with 52.5% in 2000. Including the Imagyn-related charges, gross margin percentage for 2001 was 52.3%.

Selling and administrative expenses increased to $140.6 million in 2001 as compared to $128.3 million in 2000. As a percentage of sales, selling and administrative expenses totaled 32.8% in 2001 compared to 32.4% in 2000. Excluding a non-recurring severance charge of $1.5 million recorded in 2000 related to the restructuring of our orthopedic direct sales force, as described in Note 12 to our consolidated financial statements, selling and administrative expenses as a percentage of sales were 32.0% in 2000. This restructuring involved replacing our orthopedic direct sales force with non-stocking exclusive sales agent groups in certain geographic regions of the United States. This plan resulted in greater sales force coverage in the affected geographic regions. The increase in selling and administrative expense in 2001 as compared to 2000 is a result of higher commission and other costs in 2001 as compared to 2000 associated with the change to exclusive sales agent groups as well as increased spending on sales and marketing programs.

Research and development expense totaled $14.8 million in 2001, consistent with $14.9 million in 2000. As a percentage of sales, research and development expense decreased to 3.5% in 2001 compared to 3.8% in 2000, as a result of higher sales levels. Our research and development efforts are focused primarily on new product development in the orthopedic product lines.

Interest expense in 2001 was $30.8 million compared to $34.3 million in 2000. The decrease in interest expense is primarily a result of lower weighted average interest rates on our borrowings outstanding which have declined to 6.31% at December 31, 2001 as compared to 8.84% at December 31, 2000.

Liquidity and Capital Resources

Cash generated from our operations and borrowings under our revolving credit facility have traditionally provided the working capital for our operations, debt service under our credit facility and the funding of our capital expenditures. In addition, we have used term borrowings, including:

- borrowings under our senior credit agreement;
- Senior Subordinated Notes issued to refinance borrowings under our senior credit agreement, in the case of the acquisition of Linvatec Corporation in 1997;
- borrowings under separate loan facilities, in the case of real property acquisitions, to finance our acquisitions.

On May 29, 2002, we completed a public offering of 3.0 million shares of our common stock. Net proceeds to the Company related to the sale of the shares approximated $66.1 million and were used to reduce indebtedness under our former senior credit agreement. We expect to continue to use cash flow from our operations and borrowings under our revolving credit facility to

finance our operations, our debt service under our new senior credit facility and term borrowings and the funding of our capital expenditures.

During 2002, we entered into a new $200 million senior credit agreement (the "new senior credit agreement"). The new senior credit agreement consists of a $100 million revolving credit facility and a $100 million term loan. The proceeds of the term loan portion of the new senior credit agreement were used to eliminate the term loans and borrowings on the revolving credit facility under the previously existing senior credit agreement (the "former senior credit agreement"). The new senior credit agreement calls for both components to extend for approximately five years, with the revolving credit facility terminating on August 28, 2007 and the term loan expiring on December 15, 2007. The term loan portion of the facility can be extended an additional two years, provided our currently outstanding $130 million in 9% Senior Subordinated Notes are refinanced or repaid by December 15, 2007. The scheduled principal payments on the term loan portion of the new senior credit agreement are $1.0 million annually with the remaining balance outstanding due and payable on December 15, 2007. We may also be required, under certain circumstances, to make additional principal payments based on excess cash flow as defined in the new senior credit agreement. We are not required to make an excess cash flow payment based on the application of these tests to 2002. Interest rates on the term loan and revolving credit facility components of the new senior credit agreement are LIBOR plus 275 basis points and LIBOR plus 250 basis points, respectively, or an alternative base interest rate. The weighted average interest rates at December 31, 2002 on the term loan and revolving credit facility were 4.18% and 5.75%, respectively. In addition, we are obligated to pay a fee of .5% per annum on the unused portion of the revolving credit facility ($95.0 million at December 31, 2002).

The new senior credit agreement is collateralized by substantially all of our personal property and assets, except for our accounts receivable and related rights which are pledged in connection with our accounts receivable sales agreement. The new senior credit agreement contains covenants and restrictions which, among other things, require maintenance of certain working capital levels and financial ratios, prohibit dividend payments and restrict the incurrence of certain indebtedness and other activities, including acquisitions and dispositions. The new senior credit agreement contains a material adverse effect clause that could limit our ability to access additional funding under our senior credit agreement should a material adverse change in our business occur. We are also required, under certain circumstances, to make mandatory prepayments from net cash proceeds from any issue of equity and asset sales.

The Senior Subordinated Notes (the "Notes") are in aggregate principal amount of $130.0 million, have a maturity date of March 15, 2008 and bear interest at 9.0% per annum which is payable semi-annually. The Notes are redeemable for cash at anytime on or after March 15, 2003, at our option, in whole or in part, at the redemption prices set forth therein, plus accrued and unpaid interest to the date of redemption. On March 12, 2003, we served notice to the trustee for the Notes that we would redeem $15.0 million par value of the Notes, on May 1, 2003, at the redemption price of 104.5%, for a total redemption price of $15.7 million, plus accrued and unpaid interest. We intend to redeem the Notes through borrowings under our revolving credit facility. The premium paid on the Notes will be recorded as a charge to operating income in the second quarter of 2003.

We used term loans to purchase the property in Largo, Florida utilized by our Linvatec subsidiary. The term loans consist of a Class A note bearing interest at 7.50% per annum with semi-annual payments of principal and interest through September 2009, a Class C note bearing interest at 8.25% per annum compounded semi-annually through June 2009, after which semi-annual payments of principal and interest will commence, continuing through June 2019 and a seller-financed note bearing interest at 6.50% per annum with monthly payments of principal and interest through July 2013. The principal balances outstanding on the Class A note, Class C note and seller-financed note aggregate $10.7 million, $6.9 million and $4.0 million, respectively, at December 31, 2002.

Our net working capital position was $135.7 million at December 31, 2002 as compared to $44.7 million at December 31, 2001. Included in net working capital at December 31, 2001 was $56.0 million owed on our revolving credit facility which was due to expire on December 31, 2002. As discussed above, during 2002, we entered into a new $200 million senior credit agreement. The proceeds of the new senior credit agreement were used to eliminate the existing term loans and borrowings on the revolving credit facility under the former senior credit agreement. Accordingly, balances outstanding on the former revolving credit facility have been reclassified from current to long-term obligations.

We have a five-year accounts receivable sales agreement pursuant to which we and certain of our subsidiaries sell on an ongoing basis certain accounts receivable to CONMED Receivables Corporation, ("CRC"), a consolidated wholly-owned special-purpose subsidiary of CONMED Corporation. CRC may in turn sell up to an aggregate $50.0 million undivided percentage ownership interest in such receivables (the "asset interest") to a commercial paper conduit (the "conduit purchaser"). The conduit purchaser's share of collections on accounts receivable are calculated as defined in the accounts receivable sales agreement. Effectively, collections on the pool of receivables flow first to the conduit purchaser and then to CRC. To the extent that the conduit purchaser's share of collections were less than the amount of the conduit purchaser's asset interest, there is no recourse to CONMED or CRC for such shortfall. For receivables that have been sold, CONMED Corporation and its subsidiaries retain collection and administrative responsibilities as agent for the conduit purchaser. As of December 31, 2001 and 2002, the undivided percentage ownership interest in receivables sold by CRC to the conduit purchaser aggregated $40.0 million and $37.0 million, respectively, which has been accounted for as a sale and reflected in the balance sheet as a reduction in accounts receivable.

There are certain statistical ratios, primarily related to sales dilution and losses on accounts receivable, which must be calculated and maintained on the pool of receivables in order to continue selling to the conduit purchaser. The pool of receivables is in full compliance with these ratios. Management believes that additional accounts receivable arising in the normal course of business will be of sufficient quality and quantity to qualify for sale under the accounts receivable sales agreement. In the event that new accounts receivable arising in the normal course of business do not qualify for sale, then collections on sold receivables will flow to the conduit purchaser rather than being used to fund new receivable purchases. If this were to occur, we would need to access an alternate source of working capital, such as our $100 million revolving credit facility. Our accounts receivable sales agreement also requires us to enter into a liquidity agreement with certain banks under which the banks agree to commit to fund the conduit's purchase of our accounts receivable in the event that the conduit is unable to fund such purchases through the sale of commercial paper. These liquidity agreements are typically for a period of 364 days which requires us to renew our liquidity agreement on an annual basis. In the event we were unable to renew our liquidity agreement, we would need to access an alternate source of working capital, such as our $100 million revolving credit facility.

Net cash provided by operations, which we also refer to as "operating cash flow," was $44.9 million in 2002 compared to $77.1 million in 2001. Excluding the effects of the sale of accounts receivable, operating cash flow increased to $47.9 million in 2002 compared to $37.1 million in 2001.

In reconciling net income to operating cash flow, operating cash flow in 2002 was positively impacted by depreciation, amortization and increases in accounts payable, income taxes payable and deferred income taxes and negatively impacted primarily by increases in accounts receivable and inventory and decreases in accrued compensation and accrued interest. The increases in accounts receivable and inventory are primarily related to an increase in sales. The increases in accounts payable, income taxes payable and deferred income taxes and decreases in accrued compensation and interest are primarily related to the timing of the payment of these liabilities.

Capital expenditures in 2002 were $13.4 million. These capital expenditures represent the ongoing capital investment requirements of our business and are expected to continue at approximately this same rate annually. Net cash used by investing activities in 2002 also included $17.4 million related to the purchase of several businesses as discussed in Note 2 to the consolidated financial statements.

Financing activities in 2002 consist primarily of the completion of a public offering of 3.0 million shares of our common stock and the completion of a new $200 million senior credit facility as discussed above. The $66.1 million in proceeds from the stock offering were used to repay term loans under our former senior credit agreement. Net repayments on our debt as a result of the stock offering and cash generated from operations totaled $78.5 million in 2002. Concurrent with the stock offering, we repurchased for $2.0 million from Bristol-Myers Squibb Company a warrant exercisable for 1.5 million shares of our common stock. Proceeds from the exercise of stock options totaled $5.0 million in 2002.

On January 13, 2003, we entered into an agreement to acquire Bionx Implants, Inc. (the "Bionx acquisition") in a cash transaction valuing Bionx at $4.35 per share. We completed the acquisition on March 10, 2003, paying $46.9 million in cash which we financed through borrowings under our revolving credit facility.

On March 10, 2003, we entered into an agreement with Bristol-Myers Squibb Company ("BMS") and Zimmer, Inc., ("Zimmer") to settle a contractual dispute related to the 1997 sale by BMS and its then subsidiary, Zimmer, of Linvatec Corporation to CONMED Corporation. As a result of the agreement, BMS has paid us $9.5 million in cash, which will be recorded as a gain to operating income in the first quarter of 2003 net of legal costs.

On March 11, 2003, we agreed to settle a patent infringement case filed by Ludlow Corporation, a subsidiary of Tyco International Ltd. In return for a one-time $1.5 million payment, CONMED has been granted a nonexclusive license to the disputed patents used to manufacture the gels used in certain of our ECG product lines. Accordingly, we recorded a charge to income in the fourth quarter of 2002 for the $1.5 million plus legal costs of approximately $.5 million.

Management believes that cash generated from operations, our current cash resources and funds available under our new senior credit agreement will provide sufficient liquidity to ensure continued working capital for operations, debt service and funding of capital expenditures in the foreseeable future.

Contractual Obligations

There were no capital lease obligations or unconditional purchase obligations as of December 31, 2002. The following table summarizes our contractual obligations related to operating leases and long-term debt as of December 31, 2002:

(Amounts in thousands)

	2003	2004	2005	2006	2007	Thereafter
Long-term debt	$2,631	$ 2,554	$ 2,741	$ 2,943	$102,914	$143,604
Operating lease obligations	1,698	1,499	1,235	1,213	1,233	3,138
Total contractual cash obligations	$ 4,329	$ 4,053	$ 3,976	$ 4,156	$104,157	$146,742

Stock-based Compensation

We have reserved shares of common stock issuance to employees and directors under four shareholder-approved stock option plans. The exercise price on all outstanding options is equal to the quoted fair market value of the stock at the date of grant. Stock options are non-transferable other than on death and generally become exercisable over a five year period from date of grant and expire ten years from date of grant.

New Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment of long-lived assets to be held and used and for long-lived assets to be disposed of. This Statement supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS 144 retains the fundamental provisions of Statement 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used, and (b) measurement of long-lived assets to be disposed of by sale. Effectively January 1, 2002, we adopted this pronouncement, which had no impact on the financial condition or results of operations for the year ended December 31, 2002.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," which updates, clarifies, and simplifies certain existing accounting pronouncements beginning at various dates in 2002 and 2003. This Statement rescinds SFAS 4 and SFAS 64, which required net gains or losses from the extinguishment of debt to be classified as an extraordinary item in the income statement. These gains and losses will now be classified as extraordinary only if they meet the criteria for such classification as outlined in Accounting Principles Board ("APB") Opinion 30, which allows for extraordinary treatment if the item is material and both unusual and infrequent in nature. We will adopt this pronouncement during 2003. As a result we expect to reclassify the extraordinary loss recognized in the third quarter of 2002 related to the refinancing of debt to ordinary income in the 2003 annual and interim financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities. This Statement supersedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit and Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. This pronouncement did not have an impact on our financial condition or results of operations for the year ended December 31, 2002.

In October 2002 the Emerging Issues Task Force ("EITF") issued EITF Issue No. 02-17 ("EITF 02-17"), "Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination", which addresses certain customer-related intangible assets acquired in a business combination in accordance with SFAS No. 141, "Business Combinations". SFAS 141 requires that an identifiable intangible asset be recorded apart from goodwill. EITF 02-17 requires a customer related intangible asset acquired in a business combination to be recorded apart from goodwill and amortized over its estimated useful life. This EITF is to be applied to all business combinations consummated after October 25, 2002. We are reviewing the effect of EITF 02-17 on the accounting for our acquisitions during the 4th quarter of 2002. The existing customer relationship intangible asset recorded by the Company will continue to be accounted for as a separate identifiable intangible asset subject to amortization.

In November 2002, FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" was issued. The interpretation provides guidance on the guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others. We have adopted the disclosure requirements of the interpretation as of December 31, 2002. The accounting guidelines are applicable to guarantees issued after December 31, 2002 and require that we record a liability for the fair value of such guarantees in the balance sheet. We are reviewing FIN 45 to determine its impact, if any, on future reporting periods, and do not currently anticipate any material accounting impact on our financial condition or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS 123, "Accounting for Stock-Based Compensation" to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We will continue to account for stock-based compensation using the intrinsic value method and will continue to provide pro forma disclosures of the net income and earnings per share effect of stock options using the "fair value method" in our annual and interim financial statements.

In January 2003, FIN No. 46, "Consolidation of Variable Interest Entities" was issued. The interpretation provides guidance on consolidating variable interest entities and applies immediately to variable interests created after January 31, 2003. The guidelines of the interpretation will become applicable for us in our third quarter 2003 financial statements for variable interest entities created before February 1, 2003. The interpretation requires variable interest entities to be consolidated if the equity investment at risk is not sufficient to permit an entity to finance its activities without support from other parties or the equity investors lack certain specified characteristics. We are reviewing FIN No. 46 to determine its impact, if any, on future reporting periods, and do not currently anticipate any material accounting or disclosure requirement under the provisions of the interpretation.

Quantitative and Qualitative Disclosures About Market Risk

Our principal market risks involve foreign currency exchange rates, interest rates and credit risk.

Foreign Currency Risk

We manufacture our products primarily in the United States and distribute our products throughout the world. As a result, our financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. As of December 31, 2002, we have not entered into any forward foreign currency exchange contracts to hedge the effect of foreign currency exchange fluctuations. We have mitigated and will continue to mitigate our foreign currency exposure by transacting the majority of our foreign sales in United States dollars. During 2002, changes in foreign currency exchange rates increased our sales and income before income taxes by approximately $2.0 million. We will continue to monitor and evaluate our foreign currency exposure and the need to enter into a forward foreign currency exchange contract or other hedging arrangement.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates to our borrowings. Interest rate swaps, a form of derivative, are used to manage interest rate risk. As of December 31, 2002, we had entered into an interest rate swap with a $50.0 million notional amount expiring in June 2003 which converted $50.0 million of the approximate $105.0 million of floating rate borrowings under our credit facility into fixed rate borrowings with a base interest rate of 7.01%. We amended this swap effective February 11, 2003 to lower the base rate on the $50.0 million in floating rate borrowings to 3.63% and extend the expiration date to June 2004. If market interest rates for similar borrowings average 1% more in 2003 than they did in 2002, our interest expense, after considering the effects of our interest rate swap, would increase, and income before income taxes would decrease by $1.0 million. Comparatively, if market interest rates averaged 1% less in 2003 than they did during 2002, our interest expense, after considering the effects of our interest rate swap, would decrease, and income before income taxes would increase by $1.0 million. These amounts are determined by considering the impact of hypothetical interest rates on our borrowing cost and interest rate swap agreement and does not consider any actions by management to mitigate our exposure to such a change.

Credit Risk

A substantial portion of our accounts receivable are due from hospitals and other healthcare providers. We generally do not receive collateral for these receivables. Although the concentration of these receivables with customers in a similar industry poses a risk of non-collection, we believe this risk is mitigated somewhat by the large number and geographic dispersion of these customers and by frequent monitoring of the creditworthiness of the customers to whom credit is granted in the normal course of business.

Exposure to credit risk is controlled through credit approvals, credit limits and monitoring procedures, and we believe that reserves for losses are adequate. There is no significant net exposure due to any individual customer or other major concentration of credit risk.

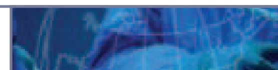
Forward-Looking Statements

This Annual Report contains certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) and information relating to CONMED Corporation that is based on the beliefs of our management, as well as assumptions made by and information currently available to our management.

When used in this Annual Report, the words "estimate," "project," "believe," "anticipate," "intend," "expect" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, that may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following:

- general economic and business conditions;
- cyclical customer purchasing patterns due to budgetary and other constraints;
- changes in customer preferences;
- competition;
- changes in technology;
- the introduction and acceptance of new products, including our PowerPro® battery-powered instrument product line;
- the success of our distribution arrangement with DePuy Orthopaedics;
- the integration of any acquisition;
- changes in business strategy;
- the possibility that United States or foreign regulatory and/or administrative agencies might initiate enforcement actions against us or our distributors;
- our indebtedness;
- quality of our management and business abilities and the judgment of our personnel;
- the availability, terms and deployment of capital;
- the risk of litigation, especially patent litigation as well as the cost associated with patent and other litigation; and
- changes in regulatory requirements.

You are cautioned not to place undue reliance on these forward-looking statements. We do not undertake any obligation to publicly release any revisions to these forward-looking statements or to reflect the occurrence of unanticipated events.



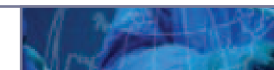
To the Board of Directors and Shareholders of CONMED Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of shareholders' equity present fairly, in all material respects, the financial position of CONMED Corporation and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets".

Syracuse, New York
March 28, 2003

PRICEWATERHOUSECOOPERS



December 31, 2001 and 2002
(In thousands except share amounts)

	2001	2002
Assets		
Current assets:		
Cash and cash equivalents	$ 1,402	$ 5,626
Accounts receivable, less allowance for doubtful accounts of $1,553 in 2001 and $922 in 2002	51,188	58,093
Inventories	107,390	120,443
Deferred income taxes	1,105	6,304
Prepaid expenses and other current assets	3,464	3,200
Total current assets	164,549	193,666
Property, plant and equipment, net	91,026	95,608
Goodwill, net	251,140	262,394
Other intangible assets, net	184,383	180,271
Other assets	10,510	10,201
Total assets	$ 701,608	$ 742,140
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 73,429	$ 2,631
Accounts payable	19,877	22,074
Accrued compensation	11,863	10,463
Income taxes payable	2,507	5,885
Accrued interest	4,954	3,794
Other current liabilities	7,207	13,127
Total current liabilities	119,837	57,974
Long-term debt	262,500	254,756
Deferred income taxes	18,655	28,446
Other long-term liabilities	16,982	14,025
Total liabilities	417,974	355,201
Shareholders' equity:		
Preferred stock, par value $.01 per share; authorized 500,000 shares, none outstanding	—	—
Common stock, par value $.01 per share; 100,000,000 authorized; 25,261,590 and 28,808,105, issued and outstanding in 2001 and 2002, respectively	253	288
Paid-in capital	160,757	231,832
Retained earnings	128,240	162,391
Accumulated other comprehensive loss	(5,197)	(7,153)
Less 37,500 shares of common stock in treasury, at cost	(419)	(419)
Total shareholders' equity	283,634	386,939
Total liabilities and shareholders' equity	$ 701,608	$ 742,140

See notes to consolidated financial statements.

Consolidated Statements of Income

Years Ended December 31, 2000, 2001 and 2002
(In thousands except per share amounts)

	2000	2001	2002
Net sales	$ 395,873	$ 428,722	$ 453,062
Cost of sales	188,223	204,374	215,891
Selling and administrative expense	128,316	140,560	141,735
Research and development expense	14,870	14,830	16,087
	331,409	359,764	373,713
Income from operations	64,464	68,958	79,349
Interest expense	34,286	30,824	24,513
Income before income taxes and extraordinary loss	30,178	38,134	54,836
Provision for income taxes	10,864	13,728	19,741
Income before extraordinary loss	19,314	24,406	35,095
Extraordinary loss, net of income taxes	—	—	944
Net income	$ 19,314	$ 24,406	$ 34,151
Per share data			
Income before extraordinary loss			
Basic	$ .84	$ 1.02	$ 1.28
Diluted	.83	1.00	1.26
Extraordinary loss			
Basic	—	—	.03
Diluted	—	—	.03
Net income			
Basic	$ .84	$ 1.02	$ 1.25
Diluted	.83	1.00	1.23

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2000, 2001 and 2002
(In thousands)

	Common Stock		Paid-in	Retained	Accumulated Other Comprehensive	Treasury	Shareholders'
	Shares	Amount	Capital	Earnings	Income (Loss)	Stock	Equity
Balance at December 31, 1999	22,957	$ 230	$ 127,317	$ 84,520	$ (387)	$ (419)	$ 211,261
Exercise of stock options	72		449				449
Tax benefit arising from exercise of stock options			219				219
Comprehensive income:							
Foreign currency translation adjustments					(640)		
Net income				19,314			
Total comprehensive income							18,674
Balance at December 31, 2000	23,029	230	127,985	103,834	(1,027)	(419)	230,603
Exercise of stock options	259	3	1,827				1,830
Tax benefit arising from exercise of stock options			604				604
Stock issued in connection with business acquisitions	1,974	20	30,341				30,361
Comprehensive income:							
Foreign currency translation adjustments					(1,142)		
Cash flow hedging (net of income tax benefit of $1,106)					(1,966)		
Minimum pension liability (net of income tax benefit of $597)					(1,062)		
Net income				24,406			
Total comprehensive income							20,236
Balance at December 31, 2001	25,262	253	160,757	128,240	(5,197)	(419)	283,634
Exercise of stock options	546	5	5,012				5,017
Tax benefit arising from exercise of stock options			1,970				1,970
Stock issuance	3,000	30	66,093				66,123
Repurchase of stock warrant			(2,000)				(2,000)
Comprehensive income:							
Foreign currency translation adjustments					1,010		
Cash flow hedging (net of income tax benefit of $596)					1,058		
Minimum pension liability (net of income tax benefit of $2,264)					(4,024)		
Net income				34,151			
Total comprehensive income							32,195
Balance at December 31, 2002	28,808	$ 288	$ 231,832	$ 162,391	$ (7,153)	$ (419)	$ 386,939

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2000, 2001 and 2002
(In thousands)

	2000	2001	2002
Cash flows from operating activities:			
Net income	$ 19,314	$ 24,406	$ 34,151
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	9,434	9,055	9,203
Amortization	20,053	21,093	13,167
Deferred income taxes	7,974	8,562	10,664
Extraordinary loss, net of income taxes	—	—	944
Increase (decrease) in cash flows from changes in assets and liabilities, net of effects from acquisitions:			
Sale of accounts receivable	—	40,000	(3,000)
Accounts receivable	(2,166)	(12,508)	(2,151)
Inventories	(18,035)	(4,235)	(15,213)
Accounts payable	3,824	(516)	1,157
Income taxes payable	2,295	(281)	4,748
Income tax benefit of stock option exercises	219	604	1,970
Accrued compensation	255	1,950	(1,584)
Accrued interest	542	(290)	(1,160)
Other assets/liabilities, net	(7,759)	(10,691)	(7,973)
	16,636	52,743	10,772
Net cash provided by operations	35,950	77,149	44,923
Cash flows from investing activities:			
Payments related to business acquisitions, net of cash required	(6,042)	—	(17,375)
Purchases of property, plant and equipment, net	(14,050)	(14,443)	(13,384)
Net cash used by investing activities	(20,092)	(14,443)	(30,759)
Cash flows from financing activities:			
Net proceeds from issuance of common stock	—	—	66,123
Net proceeds from exercise of stock options	449	1,830	5,017
Repurchase of warrant on common stock	—	—	(2,000)
Payments on debt	(32,921)	(76,423)	(183,680)
Proceeds of debt	17,000	11,000	105,138
Payments related to issuance of debt	—	—	(1,513)
Net cash used by financing activities	(15,472)	(63,593)	(10,915)
Effect of exchange rate changes on cash and cash equivalents	(663)	(1,181)	975
Net increase (decrease) in cash and cash equivalents	(277)	(2,068)	4,224
Cash and cash equivalents at beginning of year	3,747	3,470	1,402
Cash and cash equivalents at end of year	$ 3,470	$ 1,402	$ 5,626
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 33,788	$ 31,135	$ 24,453
Income taxes	4,141	2,098	5,478

Supplemental disclosures of non-cash investing and financing activities:

As more fully described in Note 2, we acquired a business in 2001 through the exchange of approximately 2.0 million shares of our common stock valued at $29.9 million.
As more fully described in Note 2, we acquired certain property in 2001 through the assumption of approximately $22.7 million of debt and accrued interest.
As more fully described in Note 2, we have agreed to issue approximately 100,000 shares of our common stock valued at approximately $1.8 million as part of the consideration for the purchase of several businesses.

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(In thousands except per share amounts)

Note 1 — Operations and Significant Accounting Policies

Organization and Operations

The consolidated financial statements include the accounts of CONMED Corporation and its subsidiaries ("CONMED", the "Company", "we" or "us"). All intercompany accounts and transactions have been eliminated. CONMED Corporation is a medical technology company specializing in instruments, implants and video equipment for arthroscopic sports medicine and powered surgical instruments, such as drills and saws, for orthopedic, ENT, neurosurgery and other surgical specialties. We are a leading developer, manufacturer and supplier of RF electrosurgery systems used routinely to cut and cauterize tissue in nearly all types of surgical procedures worldwide, endoscopy products such as trocars, clip appliers, scissors and surgical staplers, and a full line of ECG electrodes for heart monitoring and other patient care products. We also offer integrated operating room systems and intensive care unit service managers. Our products are used in a variety of clinical settings, such as operating rooms, surgery centers, physicians' offices and critical care areas of hospitals.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable Sale

On November 1, 2001, we entered into a five-year accounts receivable sales agreement pursuant to which we and certain of our subsidiaries sell on an ongoing basis certain accounts receivable to CONMED Receivables Corporation ("CRC"), a wholly-owned special-purpose subsidiary of CONMED Corporation. CRC may in turn sell up to an aggregate $50.0 million undivided percentage ownership interest in such receivables (the "asset interest") to a commercial paper conduit (the "conduit purchaser"). The conduit purchaser's share of collections on accounts receivable are calculated as defined in the accounts receivable sales agreement. Effectively, collections on the pool of receivables flow first to the conduit purchaser and then to CRC, but to the extent that the conduit purchaser's share of collections were less than the amount of the conduit purchaser's asset interest, there is no recourse to CONMED or CRC for such shortfall. For receivables that have been sold, CONMED Corporation and its subsidiaries retain collection and administrative responsibilities as agent for the conduit purchaser. As of December 31, 2001 and 2002, the undivided percentage ownership interest in receivables sold by CRC to the conduit purchaser aggregated $40.0 million and $37.0 million, respectively, which has been accounted for as a sale and reflected in the balance sheet as a reduction in accounts receivable. Expenses associated with the sale of accounts receivable, including the conduit purchaser's financing cost of issuing commercial paper, were $.2 million and $1.2 million, in 2001 and 2002, respectively.

There are certain statistical ratios, primarily related to sales dilution and losses on accounts receivable, which must be calculated and maintained on the pool of receivables in order to continue selling to the conduit purchaser. The pool of receivables is in full compliance with these ratios. Management believes that additional accounts receivable arising in the normal course of business will be of sufficient quality and quantity to qualify for sale under the accounts receivable sales agreement. In the event that new accounts receivable arising in the normal course of business do not qualify for sale, then collections on sold receivables will flow to the conduit purchaser rather than being used to fund new receivable purchases. To the extent that such collections would not be available to CONMED in the form of new receivables purchases, we would need to access an alternate source of working capital, such as our $100 million revolving credit facility. Our accounts receivable sales agreement also requires us to enter into a liquidity agreement with certain banks under which the banks agree to commit to fund the conduit's purchase of our accounts receivable in the event that the conduit is unable to fund such purchases through the sale of commercial paper. These liquidity agreements are typically for a period of 364 days which requires us to renew our liquidity agreement on an annual basis. In the event we were unable to renew our liquidity agreement, we would need to access an alternate source of working capital, such as our $100 million revolving credit facility.

Inventories

Inventories are stated at the lower of cost or market, cost being determined on the first-in, first-out basis.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated using the straight-line method over the following estimated useful lives:

Building and improvements	40 years
Leasehold improvements	Remaining life of lease
Machinery and equipment	2 to 15 years

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over fair value of identifiable net assets of acquired businesses. Other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. Goodwill and other intangible assets have been amortized over periods ranging from 5 to 40 years through December 31, 2001. Because of our history of growth through acquisitions, goodwill and other intangible assets comprise a substantial portion (59.6% at December 31, 2002) of our total assets.

In June 2001, the Financial Accounting Standards Board approved Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"). We adopted SFAS 142 effective January 1, 2002. As a result of the adoption of this standard, amortization of goodwill and certain intangibles has been discontinued.

During 2002, we performed tests of goodwill and indefinite-lived intangible assets. We tested for impairment using the two-step process prescribed in SFAS 142. The first step is identification for potential impairment. The second step, which has been determined not to be necessary, measures the amount of any impairment. No impairment losses have been recognized as a result of these tests.

Impairment of Long-Lived Assets

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS 144") was adopted by us on January 1, 2002. Our long-lived assets accounted for in accordance with SFAS 144 primarily consist of intangible assets subject to amortization and property, plant and equipment. In accordance with SFAS 144, we review for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized by reducing the recorded value to fair value.

Derivative Financial Instruments

We use an interest rate swap to manage the interest risk associated with our variable rate debt under our credit facility. Effective January 1, 2001, we adopted Statement of Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities, ("SFAS 133"). SFAS 133 requires that derivatives be recorded on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from the changes in the values of the derivatives are accounted for depending on whether the derivative qualifies for hedge accounting. Upon adoption of SFAS 133, we recorded a net-of-tax cumulative-effect-type loss adjustment of approximately $1.0 million in accumulated other comprehensive income to recognize at fair value an interest rate swap which we have designated as a cash-flow hedge and which effectively converts $50.0 million of LIBOR-based floating rate debt under our credit facility into fixed rate debt with a base interest rate of 7.01%. Gross holding losses during 2001 and 2002 related to the interest rate swap aggregated $4.4 million and $.8 million, respectively, before income taxes. Approximately $1.3 million and $2.5 million, before income taxes, of gross holding losses were reclassified and included in net income in 2001 and 2002, respectively.

Fair Value of Financial Instruments

The fair values of cash and cash equivalents, accounts receivable, accounts payable, and interest rate swaps approximates their carrying amount. The estimated fair values and carrying amounts of long-term debt are as follows:

	2001		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt (including current maturities)	$ 335,929	$ 338,529	$ 257,387	$ 262,587

Fair values were determined from quoted market prices or discounted cash flow analysis.

Translation of Foreign Currency Financial Statements

Assets and liabilities of foreign subsidiaries have been translated into United States dollars at the applicable rates of exchange in effect at the end of the period reported. Revenues and expenses have been translated at the applicable weighted average rates of exchange in effect during the period reported. Translation adjustments are reflected in accumulated other comprehensive income (loss). Transaction gains and losses are included in net income.

Income Taxes

We provide for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under the liability method specified by SFAS 109, deferred tax assets and liabilities are based on the difference between the financial statement and tax basis of assets and liabilities as measured by the tax rates that are anticipated to be in effect when these differences reverse. The deferred tax provision generally represents the net change in the assets and liabilities for deferred tax. A valuation allowance is established when it is necessary to reduce deferred tax assets to amounts for which realization is more likely than not.

Revenue Recognition

We recognize revenue upon shipment of product and passage of title to our customers. Factors considered in our revenue recognition policy are as follows:

- Sales to customers are evidenced by firm purchase orders. Title and the risks and rewards of ownership are transferred to the customer when product is shipped.
- Payment by the customer is due under fixed payment terms. Even when the sale is to a distributor, payment to us is not contractually or implicitly delayed until the product is resold by the distributor.
- We place certain of our capital equipment with customers in return for commitments to purchase disposable products over time periods generally ranging from one to three years. In these circumstances, no revenue is recognized upon capital shipment and we recognize revenue upon the disposable product shipment.
- Product returns are only accepted at the discretion of the Company and in keeping with our "Returned Goods Policy". Product returns have not been significant historically. We accrue for sales returns, rebates and allowances based upon analysis of historical data.
- The terms of the Company's sales to customers do not involve any obligations for the Company to perform future services. Limited warranties are generally provided for capital equipment sales and provisions for warranty are provided at the time of product shipment.
- Amounts billed to customers related to shipping and handling are included in net sales. Shipping and handling costs of $8.1 million, $8.6 million and $7.5 million for the years ended 2000, 2001 and 2002, respectively, are included in selling and administrative expense.
- We sell to a diversified base of customers around the world and, therefore, believe there is no material concentration of credit risk.
- We assess the risk of loss on accounts receivable and adjust the allowance for doubtful accounts based on this risk assessment. Historically, losses on accounts receivable have not been material. Management believes the allowance for doubtful accounts of $.9 million at December 31, 2002 is adequate to provide for any probable losses from accounts receivable.

Earnings Per Share

Basic earnings per share ("EPS") is computed based on the weighted average number of common shares outstanding for the period. Diluted EPS gives effect to all dilutive potential shares outstanding (i.e., options and warrants) during the period. The following is a reconciliation of the weighted average shares used in the calculation of basic and diluted EPS:

	2000	2001	2002
Shares used in the calculation of basic EPS (weighted average shares outstanding)	22,967	24,045	27,337
Effect of dilutive potential securities	304	356	490
Shares used in the calculation of diluted EPS	23,271	24,401	27,827

The shares used in the calculation of diluted EPS exclude warrants and options to purchase shares where the exercise price was greater than the average market price of common shares for the year. Such shares aggregated 3,396, 2,842 and 683 at December 31, 2000, 2001 and 2002, respectively.

Stock-based Compensation

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") defines a fair value based method of accounting for an employee stock option whereby compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period. A company may elect to adopt SFAS 123 or elect to continue accounting for its stock option or similar equity awards using the method of accounting prescribed by Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees", where compensation cost is measured at the date of grant based on the excess of the market value of the underlying stock over the exercise price. We have elected to continue to account for our stock-based compensation plans under the provisions of APB No. 25. No compensation expense has been recognized in the accompanying financial statements relative to our stock option plans.

Pro forma information regarding net income and earnings per share is required by SFAS 123 and has been determined as if we had accounted for our employee stock options under the fair value method of that statement. The weighted average fair value of options granted in 2000, 2001 and 2002 was $8.55, $7.39 and $9.32, respectively. The fair value of these options was estimated at the date of grant using a Black-Scholes options pricing model with the following weighted-average assumptions for options granted in 2000, 2001 and 2002, respectively: Risk-free interest rates of 5.06%, 4.38% and 2.70%; volatility factors of the expected market price of the Company's common stock of 68.01%, 48.04% and 41.10%; a weighted-average expected life of the option of five years; and that no dividends would be paid on common stock.

For purposes of the pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

	2000	2001	2002
Income before extraordinary loss—as reported	$ 19,314	$ 24,406	$ 35,095
Pro forma stock-based employee compensation expense, net of related income tax effect	(3,147)	(2,845)	(2,156)
Income before extraordinary loss—pro forma	$ 16,167	$ 21,561	$ 32,939
EPS before extraordinary loss—as reported:			
Basic	$ 0.84	$ 1.02	$ 1.28
Diluted	$ 0.83	$ 1.00	$ 1.26
EPS before extraordinary loss—pro forma:			
Basic	$ .70	$ .90	$ 1.20
Diluted	$ .69	$ .88	$ 1.18

Reclassifications

Certain prior year amounts have been reclassified to conform with the presentation used in 2002.

Note 2 — Business Acquisitions

On November 20, 2000 we acquired certain assets of the disposable minimally invasive surgical business of Imagyn Medical Technologies, Inc. (the "Imagyn acquisition") for a purchase price of $6.0 million. The acquired products, with annual revenues of approximately $5.0 million, complement our existing minimally invasive surgical products business. Goodwill associated with the Imagyn acquisition aggregated approximately $4.8 million.

On June 11, 2001, we reached a definitive agreement to acquire the remaining assets of the minimally invasive surgical business of Imagyn Medical Technologies, Inc. that we did not acquire in November 2000 (the "second Imagyn acquisition"). The new products, with annual revenues of approximately $20.0 million, complement our existing minimally invasive surgical products business. Under the terms of the acquisition agreement, we issued Imagyn approximately 2.0 million shares of CONMED common stock, valuing the transaction at $29.9 million based on the average market price of our common stock over the 2-day period before and after the terms of the acquisition were agreed to and announced. Goodwill associated with the second Imagyn acquisition aggregated approximately $26.7 million. As discussed in Note 12, during the third and fourth quarters of 2001 we incurred certain non-recurring costs aggregating approximately $1.5 million in connection with the second Imagyn acquisition which are included in cost of sales.

On August 3, 2001, we purchased the real estate partnerships which own the Largo, Florida property leased by our Linvatec subsidiary for an aggregate purchase price of $22.7 million (the "Largo acquisition"). In connection with the acquisition, we assumed the existing debt on the property and financed the remainder with the seller (Note 6).

On March 20 and July 23, 2002, respectively, we acquired businesses related to our Patient Care and Endoscopy product lines for approximately $2.0 million in cash. Goodwill associated with these acquisitions aggregated approximately $1.9 million with annual revenues of approximately $1.2 million. Under the terms of the agreements, we also agreed to pay additional consideration dependent upon future product sales.

On October 29 and November 25, 2002, respectively, we acquired two businesses engaged in the design, manufacture and installation of integrated operating room systems and related equipment for a total of approximately $6.0 million in cash and stock plus the assumption of liabilities. Goodwill associated with these acquisitions aggregated approximately $6.4 million with annual revenues of approximately $5.0 million. Under the terms of one of the agreements, we also agreed to pay additional consideration dependent upon future operating income.

On December 31, 2002, we acquired certain of the assets and liabilities of CORE Dynamics, Inc., a developer and manufacturer of minimally invasive surgical products (the "CORE acquisition"). The acquired products, with annual revenues of approximately $7.5 million, complement our existing Endoscopy product lines. Under the terms of the acquisition agreement, we agreed to pay $9.0 million in cash. Goodwill associated with the CORE acquisition aggregated approximately $7.8 million.

The cost of acquisitions completed in 2002 may require adjustment based upon information which is not currently available, principally related to the valuation of intangibles and inventory.

Note 3 — Inventories

The components of inventory at December 31, 2001 and 2002 are as follows:

	2001	2002
Raw materials	$ 38,101	$ 44,701
Work in process	11,921	12,869
Finished goods	57,368	62,873
	$ 107,390	$ 120,443

Note 4 — Property, Plant and Equipment

Details of property, plant and equipment are as follows:

	2001	2002
Land	$ 4,004	$ 4,196
Building and improvements	67,951	70,100
Machinery and equipment	68,284	74,838
Construction in progress	1,955	5,038
	142,194	154,172
Less: Accumulated depreciation	(51,168)	(58,564)
	$ 91,026	$ 95,608

We lease various manufacturing and office facilities and equipment under operating leases. Rental expense on these operating leases was approximately $3,376, $2,756 and $2,064 for the years ended December 31, 2000, 2001 and 2002, respectively. The aggregate future minimum lease commitments for operating leases at December 31, 2002 are as follows:

Year ending December 31,:

2003	$ 1,698
2004	1,499
2005	1,235
2006	1,213
2007	1,233
Thereafter	3,138

Note 5 — Goodwill and Other Intangible Assets

The changes in the net carrying amount of goodwill for the year ended December 31, 2002 are as follows:

Balance as of January 1, 2002	$ 251,140
Goodwill acquired during 2002	16,194
Adjustments to goodwill resulting from business acquisitions finalized in 2002	(4,940)
Balance as of December 31, 2002	$ 262,394

Other intangible assets consist of the following:

	Dec. 31, 2001		Dec. 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	$ 96,712	$ (10,180)	$ 96,712	$ (12,725)
Patents and other intangible assets	22,148	(10,441)	23,674	(13,534)
Unamortized intangible assets:				
Trademarks and tradenames	95,715	(9,571)	95,715	(9,571)
	$ 214,575	$ (30,192)	$216,101	$ (35,830)

Other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. The weighted average amortization period for intangible assets which are amortized is 21 years. Customer relationships are being amortized over 38 years. Patents and other intangible assets are being amortized over a weighted average life of 7 years.

Our customer relationship asset was acquired in connection with the 1997 acquisition of Linvatec Corporation. This intangible asset represents the value associated with business expected to be generated from existing customers as of the acquisition date. In connection with the Linvatec acquisition the value of this asset was determined by measuring the present value of the projected future earnings attributable to this asset. Additionally, while the useful life of this customer relationship asset is not limited by contract or any other economic, regulatory or other known factors, the useful life of 38 years was determined at the acquisition date by historical customer attrition. In accordance with SFAS 142 and as clarified by EITF (Emerging Issues Task Force) Issue 02-17, "Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination" which was issued on January 6, 2003, this customer relationship which is evidenced by customer purchase orders is contractual in nature and therefore continues to be recognized separate from goodwill and amortized over the 38 year life.

The trademarks and tradenames intangible asset was recognized in conjunction with the 1997 acquisition of Linvatec Corporation. We continue to market products under the acquired trademarks and tradenames of "Linvatec", "Hall", "Shutt" and "Envision". From the date of the Linvatec acquisition, we have continued to release new product and product extensions under the above trademarks and tradenames and continue to maintain and promote these trademarks and tradenames in the market through legal registration and such methods as advertising, medical education and trade shows. It is our belief that the trademarks and tradenames intangible asset will generate cash flow for an indefinite period of time. Accordingly, upon adoption of SFAS 142, effective January 1, 2002, amortization of the trademarks and tradenames intangible asset was discontinued.

The amortization expense related to intangible assets for the year ending December 31, 2002 and the estimated amortization expense for each of the five succeeding years is as follows:

2002	$ 5,634
2003	5,371
2004	5,005
2005	4,099
2006	3,605
2007	3,605

The following is a reconciliation assuming goodwill and other intangible assets had been accounted for in accordance with SFAS 142 in the year ended December 31, 2000, 2001 and 2002:

	2000	2001	2002
Income before extraordinary loss—as reported	$ 19,314	$ 24,406	$ 35,095
Adjustments (net of income taxes)			
Add back: Goodwill amortization	4,043	4,120	—
Add back: Trademarks and trade names amortization	1,532	1,532	—
Adjusted income before extraordinary loss	$ 24,889	$ 30,058	$ 35,095
Basic EPS			
Income before extraordinary loss—as reported	$ .84	$ 1.02	$ 1.28
Adjustments (net of income taxes)			
Add back: Goodwill amortization	.17	.17	—
Add back: Trademarks and trade names amortization	.07	.06	—
Adjusted income before extraordinary loss	$ 1.08	$ 1.25	$ 1.28
Diluted EPS			
Income before extraordinary loss—as reported	$ .83	$ 1.00	$ 1.26
Adjustments (net of income taxes)			
Add back: Goodwill amortization	.17	.17	—
Add back: Trademarks and trade names amortization	.07	.06	—
Adjusted income before extraordinary loss	$ 1.07	$ 1.23	$ 1.26

Note 6 — Long Term Debt

We entered into a new $200 million senior credit agreement (the "new senior credit agreement") during the year-ending December 31, 2002. The new senior credit agreement consists of a $100 million revolving credit facility and a $100 million term loan. As of December 31, 2002, we had $100 million outstanding on the term loan and $5 million outstanding on the revolving credit facility.

The proceeds of the term loan portion of the new senior credit agreement were used to eliminate the term loans and borrowings on the revolving credit facility under the previously existing senior credit agreement (the "former senior credit agreement"). Deferred financing fees related to the approximately three years remaining on the former senior credit agreement were written off as an extraordinary charge of $.9 million, net of $.6 million of income tax benefit, or $.04 per diluted share, on the early extinguishment of debt. The new senior credit agreement calls for both components to extend for approximately five years, with the revolving credit facility terminating on August 28, 2007 and the term loan expiring on December 15, 2007. The term loan portion of the facility can be extended an additional two years, provided our currently outstanding $130 million in 9% Senior Subordinated Notes are refinanced or repaid by December 15, 2007.

The scheduled principal payments on the term loan portion of the new senior credit agreement are $1.0 million annually with the remaining balance outstanding due and payable on December 15, 2007. We may also be required, under certain circumstances, to make additional principal payments based on excess cash flow as defined in the new senior credit agreement. Interest rates on the term loan and revolving credit facility components of the new senior credit agreement are LIBOR plus 275 basis points and LIBOR plus 250 basis points, respectively, or an alternative base interest rate. The weighted average interest rates at December 31, 2002 on the term loan and revolving credit facility were 4.18% and 5.75%, respectively. In addition, we are obligated to pay a fee of .5% per annum on the unused portion of the revolving credit facility ($95.0 million at December 31, 2002).

The new senior credit agreement is collateralized by substantially all of our personal property and assets, except for our accounts receivable and related rights which are pledged in connection with our accounts receivable sales agreement. The new senior credit agreement contains covenants and restrictions which, among other things, require maintenance of certain working capital levels and financial ratios, prohibit dividend payments and restrict the incurrence of certain indebtedness and other activities, including acquisitions and dispositions. The new senior credit agreement contains a material adverse effect clause that could limit our ability to access additional funding under our senior credit agreement should a material adverse change in our business occur. We are also required, under certain circumstances, to make mandatory prepayments from net cash proceeds from any issue of equity and asset sales.

The debt assumed in connection with the Largo acquisition (Note 2), consists of a note bearing interest at 7.50% per annum with semi-annual payments of principal and interest through June 2009 (the "Class A note"); and a note bearing interest at 8.25% per annum compounded semi-annually through June 2009, after which semi-annual payments of principal and interest will commence, continuing through June 2019 (the "Class C note"). Additionally, there is a seller-financed note which bears interest at 6.50% per annum with monthly payments of principal and interest through July 2013 (the "Seller note"). The principal balances assumed on the Class A note, Class C note and Seller note aggregate $12.2 million $6.2 million and $4.2 million, respectively, at the date of acquisition. The principal balances outstanding related to the Largo acquisition, aggregated $10.7 million, $6.9 million and $4.0 million, at December 31, 2002 on the Class A note, Class C note and Seller note respectively. The Largo acquisition related debt is collateralized by, among other things, recorded and unrecorded mortgage liens on the Largo property.

We have $130 million of 9% Senior Subordinated Notes (the "Notes") outstanding at December 31, 2002. The Notes mature on March 15, 2008, unless previously redeemed by us. Interest on the Notes is payable semi-annually on March 15 and September 15 of each year. The Notes are redeemable for cash at anytime on or after March 15, 2003, at our option, in whole or in part, at the redemption prices set forth therein, plus accrued and unpaid interest to the date of redemption. On March 12, 2003, we served notice to the trustee for the Notes that we would redeem $15.0 million par value of the Notes, on May 1, 2003, at the redemption price of 104.5%, for a total redemption price of $15.7 million, plus accrued and unpaid interest. We intend to redeem the Notes through borrowings under our revolving credit facility. The premium paid on the Notes will be recorded as a charge to operating income in the second quarter of 2003.

As discussed in Note 1, we use an interest rate swap, a form of derivative financial instrument, to manage interest rate risk. We have designated as a cash-flow hedge, an interest rate swap which effectively converts $50 million of LIBOR-based floating rate debt under our senior credit agreement into fixed rate debt with a base interest rate of 7.01%. The interest rate swap expires in June 2003 and is included in liabilities on the balance sheet with a fair value approximating $1.4 million at December 31, 2002. We amended this swap effective February 11, 2003 to lower the base rate on the $50.0 million in floating rate borrowings to 3.63% and extend the expiration date to June 2004.

The scheduled maturities of long-term debt outstanding at December 31, 2002 are as follows:

Year ended December 31,:

2003	$ 2,631
2004	2,554
2005	2,741
2006	2,943
2007	102,914
Thereafter	143,604

Note 7 — Income Taxes

The provision for income taxes for the years ended December 31, 2000, 2001 and 2002 consists of the following:

	2000	2001	2002
Current tax expense:			
Federal	$ 1,634	$ 3,565	$ 7,782
State	300	400	540
Foreign	956	1,201	755
	2,890	5,166	9,077
Deferred income tax expense	7,974	8,562	10,664
Provision for income taxes	$ 10,864	$ 13,728	$ 19,741

A reconciliation between income taxes computed at the statutory federal rate and the provision for income taxes follows:

	2000	2001	2002
Tax provision at statutory rate based on income before income taxes and extraordinary loss	$ 10,562	$ 13,347	$ 19,193
Foreign sales corporation/ Extraterritorial income exclusion	(725)	(894)	(949)
State taxes	180	270	351
Nondeductible intangible amortization	321	320	90
Other nondeductible permanent differences	200	220	215
Other, net	326	465	841
	$ 10,864	$ 13,728	$ 19,741

The tax effects of the significant temporary differences which comprise the deferred tax assets and liabilities at December 31, 2001 and 2002 are as follows:

	2001	2002
Assets:		
Receivables	$ 225	$ 94
Inventory	870	2,106
Deferred compensation	943	1,142
Employee benefits	428	491
Additional minimum pension liability	597	2,861
Interest rate swap	1,106	510
Other	164	859
Net operating losses of acquired subsidiary	3,410	2,986
Valuation allowance for deferred tax assets	(3,410)	—
	4,333	11,049
Liabilities:		
Goodwill and intangible assets	17,757	28,633
Depreciation	4,126	4,558
	21,883	33,191
Net liability	$ (17,550)	$ (22,142)

Management had established a valuation allowance in prior years to reflect the uncertainty of realizing the benefit of certain net operating loss carryforwards related to an acquisition. During the year ended December 31, 2002, management determined that a valuation allowance was no longer required, resulting in a reduction in goodwill related to the acquisition.

Note 8 — Shareholders' Equity

The shareholders have authorized 500 thousand shares of preferred stock, par value $.01 per share, which may be issued in one or more series by the Board of Directors without further action by the shareholders. As of December 31, 2001 and 2002, no preferred stock had been issued.

On August 8, 2001, our Board of Directors declared a three-for-two split of our common stock to be effected in the form of a common stock dividend. This dividend was payable on September 7, 2001 to shareholders of record on August 21, 2001. Accordingly, common stock, the number of shares outstanding, earnings per share, incentive stock option activity and the number of shares used in the calculation of earnings per share have all been restated to retroactively reflect the split.

In connection with the 1997 acquisition of Linvatec Corporation, we issued to Bristol-Myers Squibb Company a warrant exercisable in whole or in part for up to 1.5 million shares of our common stock at a price of $22.82 per share. On May 6, 2002, we purchased the warrant for $2.0 million in cash and subsequently cancelled it. The purchase resulted in a $2.0 million reduction to paid-in capital.

On May 29, 2002, we completed a public offering of 3.0 million shares of our common stock. Net proceeds to the Company related to the sale of the shares approximated $66.1 million and were used to reduce indebtedness under our credit facility.

We have reserved 2.7 million shares of common stock for issuance to employees and directors under four stock option plans (the "Plans") of which approximately 1.3 million remain available for grant at December 31, 2002. The exercise price on all outstanding options is equal to the quoted fair market value of the stock at the date of grant. Stock options are non-transferable other than on death and generally become exercisable over a five year period from date of grant and expire ten years from date of grant.

The following is a summary of incentive stock option activity under the Plans:

	Number of Shares	Weighted-Average Exercise Price
Outstanding at December 31, 1999	2,656	$ 13.96
Granted	684	14.05
Forfeited	(209)	17.20
Exercised	(72)	6.23
Outstanding at December 31, 2000	3,059	13.91
Granted	709	15.59
Forfeited	(75)	18.86
Exercised	(259)	7.07
Outstanding at December 31, 2001	3,434	14.69
Granted	742	23.42
Forfeited	(40)	15.27
Exercised	(546)	8.88
Outstanding at December 31, 2002	3,590	$ 17.27
Exercisable:		
December 31, 2000	1,674	$ 12.31
December 31, 2001	1,954	13.59
December 31, 2002	1,875	15.55

Range of Exercise Prices	Stock Options Outstanding at Dec. 31 2002	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Stock Options Exercisable at Dec. 31 2002	Weighted Average Exercise Price
Less than $10	307	6.0	$ 8.30	260	$ 8.14
$10 to $15	869	7.0	13.85	428	13.56
$15 to $17.50	908	5.7	16.38	689	16.36
$17.50 to $20	515	7.1	19.02	278	19.22
$20 to $22.50	643	7.8	21.39	220	20.96
$22.50 to $26	348	9.4	25.90	—	—

During 2002 we adopted a shareholder-approved Employee Stock Purchase Plan (the "Employee Plan"), under which we have reserved 1.0 million shares of common stock for issuance to our employees. The Employee Plan provides to employees the opportunity to invest from 1% to 10% of their annual salary to purchase shares of CONMED common stock through the exercise of stock options granted by the Company at a purchase price equal to the lesser of (1) 85% of the fair market value of the common stock at the beginning of a semi-annual period and (2) 85% of the fair market value of the common stock at the end of such semi-annual period. During 2003, we issued approximately 28 thousand shares of common stock under the Employee Plan related to 2002. No stock-based compensation expense has been recognized in the accompanying consolidated financial statements as a result of common stock issuances under the Employee Plan.

Note 9 — Business Segments and Geographic Areas

CONMED's business is organized, managed and internally reported as a single segment comprised of medical instruments and systems used in surgical and other medical procedures. Our product lines have similar economic, operating and other related characteristics.

The following is net sales information by product line:

	2000	2001	2002
Arthroscopy	$ 145,044	$ 155,650	$ 161,876
Powered surgical instruments	113,738	114,375	114,302
Patient care	68,261	69,067	69,753
Electrosurgery	62,459	66,875	69,674
Endoscopy	6,371	22,755	36,801
Integrated operating room systems	—	—	656
Total	$ 395,873	$ 428,722	$ 453,062

The following is net sales information for geographic areas:

	2000	2001	2002
United States	$ 288,514	$ 306,306	$ 320,312
Japan	18,885	18,234	18,820
Canada	14,624	16,662	15,980
United Kingdom	11,904	15,382	18,625
All other countries	61,946	72,138	79,325
Total	$ 395,873	$ 428,722	$ 453,062

Sales are attributed to countries based on the location of the customer. There were no significant investments in long-lived assets located outside the United States at December 31, 2001 and 2002.

Note 10 — Employee Benefit Plans

We maintain an employee savings plan and several defined benefit pension plans covering substantially all employees. Total employer contributions to the employee savings plan were $2.4 million, $1.7 million and $2.0 million in 2000, 2001 and 2002, respectively.

We make annual contributions to the defined benefit pension plans equal to the maximum deduction allowed for federal income tax purposes.

Net pension cost for 2000, 2001 and 2002 included the following components:

	2000	2001	2002
Service cost — benefits earned during the period	$ 2,658	$ 3,622	$ 3,988
Interest cost on projected benefit obligation	1,608	1,785	2,002
Expected return on plan assets	(1,121)	(1,211)	(1,595)
Net amortization and deferral	21	166	350
Net pension cost	$ 3,166	$ 4,362	$ 4,745

The following table sets forth the plans' funded status and amounts recognized in the consolidated balance sheets at December 31, 2001 and 2002:

	2001	2002
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 22,949	$ 29,748
Service cost	3,622	3,988
Interest cost	1,785	2,002
Actuarial loss (gain)	4,597	1,178
Benefits paid	(3,205)	(3,277)
Projected benefit obligation at end of year	$ 29,748	$ 33,639
Change in plan assets		
Fair value of plan assets at beginning of year	$ 13,077	$ 16,963
Actual return on plan assets	432	(2,261)
Employer contribution	6,659	6,744
Benefits paid	(3,205)	(3,277)
Fair value of plan assets at end of year	$ 16,963	$ 18,169
Change in funded status		
Funded status	$ 12,785	$ 15,470
Unrecognized net actuarial loss	(9,062)	(13,760)
Unrecognized transition liability	(56)	(52)
Unrecognized prior service cost	(140)	(129)
Additional minimum pension liability	1,659	7,947
Accrued pension cost	$ 5,186	$ 9,476

For 2000, 2001 and 2002 actuarial calculation purposes, the weighted average discount rate was 7.5%, 7.0% and 6.75%, respectively, the expected long term rate of return was 8.0% and the rate of increase in future compensation levels was 4.5%, 4.5% and 3.0%, respectively.

Note 11 — Legal Matters

From time to time, we have been named as a defendant in certain lawsuits alleging product liability, patent infringement, or other claims incurred in the ordinary course of business. We accrue for contingent losses when the loss is probable and reasonably estimable. Contingent gains are recognized when realized. Certain of these claims are covered by various insurance policies, subject to deductible amounts and maximum policy limits. Ultimate liability with respect to these contingencies, if any, is not considered to be material to the consolidated financial statements of the Company.

Note 12 — Non-recurring Items

During the quarter ended June 2000, we announced we would replace our arthroscopy direct sales force with non-stocking, exclusive sales agent groups in certain geographic regions of the United States. As a result, we

incurred a severance charge of $1.5 million, before income taxes, in the second quarter of 2000. This non-recurring charge is included in selling and administrative expense.

As discussed in Note 2, during the third and fourth quarters of 2001, we incurred certain charges related to the second Imagyn acquisition. These costs were primarily related to the transition in manufacturing of the Imagyn product lines from Imagyn's Richland, Michigan facility to our manufacturing plants in Utica, New York. Such costs totaled $.9 million and $.7 million, respectively, before income taxes, in each of the third and fourth quarters of 2001. These non-recurring charges are included in cost of sales.

During the quarter ended September 30, 2002, we entered into a new $200 million senior credit agreement. Deferred financing fees related to the approximately three years remaining on the former senior credit agreement have been written off as an extraordinary charge of $.9 million, net of income taxes, or $.04 per diluted share, on the early extinguishment of debt.

On March 11, 2003, we agreed to settle a patent infringement case filed by Ludlow Corporation, a subsidiary of Tyco International Ltd. In return for a one-time $1.5 million payment, CONMED has been granted a nonexclusive license to the disputed patents used to manufacture the gels used in certain of our ECG product lines. Accordingly, we recorded a charge to income in the fourth quarter of 2002 for the $1.5 million plus legal costs of approximately $.5 million.

Note 13 — Guarantees

We provide service and warranty policies on certain of our products at the time of sale. Liability under service and warranty policies is based upon a review of historical warranty and service claim experience. Adjustments are made to accruals as claim data and historical experience warrant.

The changes in the carrying amount of service and product warranties for the year ended December 31, 2002, are as follows:

Balance as of January 1, 2002	$ 2,909
Provision for warranties	4,287
Claims made	(3,983)
Balance as of December 31, 2002	$ 3,213

Note 14 — Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data for 2001 and 2002 are as follows:

	Three Months Ended			
	March	June	September	December
2001				
Net sales	$ 105,909	$ 104,171	$ 105,318	$ 113,324
Gross profit	56,235	54,206	53,986	59,921
Net income	6,003	5,734	5,015	7,654
Net income adjusted for SFAS 142	7,416	7,147	6,428	9,067
EPS:				
Basic	$ .26	$ .25	$ .20	$ .30
Basic adjusted for SFAS 142	.32	.31	.26	.36
Diluted	.26	.25	.20	.30
Diluted adjusted for SFAS 142	.32	.31	.25	.35

	March	June	September	December
2002				
Net sales	$ 113,205	$ 111,269	$ 113,332	$ 115,256
Gross profit	59,101	59,558	58,903	59,609
Income before extraordinary loss	9,076	8,950	9,167	7,902
Net income	9,076	8,950	8,223	7,902
EPS—before extraordinary loss:				
Basic	$ .36	$ .34	$ .32	$ .28
Diluted	.35	.33	.32	.27
EPS—Net income				
Basic	.36	.34	.29	.28
Diluted	.35	.33	.28	.27

As discussed in Notes 2 and 12, during the third and fourth quarters of 2001, we incurred certain transition charges related to the second Imagyn acquisition. Such costs totaled $.9 million and $.7 million, respectively, before income taxes, in each of the third and fourth quarters of 2001. These non-recurring charges are included in cost of sales. As discussed in Note 12, during the fourth quarter of 2002, we incurred a $2.0 million charge, before income taxes, to selling and administrative expense, related to the settlement of a patent infringement case.

Note 15 — Subsequent Events

On January 13, 2003, we entered into an agreement to acquire the common stock of Bionx Implants, Inc. (the "Bionx acquisition") in a cash transaction valuing Bionx at $4.35 per share. We completed the acquisition on March 10, 2003, paying $46.9 million in cash which we financed through borrowings under our revolving credit facility (Note 6). Bionx develops and manufactures self-reinforced resorbable polymer implants including screws, pins and meniscal implants for use in a variety of orthopedic applications, including sports medicine and fracture fixation. In 2002, Bionx recorded revenues of approximately $18.0 million. The acquired product lines are expected to complement CONMED's existing orthopedic product lines. The purchase price allocation of the Bionx acquisition is still being finalized.

On March 10, 2003, we entered into an agreement with Bristol-Myers Squibb Company ("BMS") and Zimmer, Inc., ("Zimmer") to settle a contractual dispute related to the 1997 sale by BMS and its then subsidiary, Zimmer, of Linvatec Corporation to CONMED Corporation. As a result of the agreement, BMS has paid us $9.5 million in cash, which will be recorded as a gain to ordinary income in the first quarter of 2003 net of legal costs.

Note 16 — Guarantor Financial Statements

Our credit facility and subordinated notes (the "Notes") are guaranteed (the "Subsidiary Guarantees") by each of our subsidiaries (the "Subsidiary Guarantors") except CRC (the "Non-Guarantor Subsidiary"). The Subsidiary Guarantees provide that each Subsidiary Guarantor will fully and unconditionally guarantee our obligations under the credit facility and the Notes on a joint and several basis. Each Subsidiary Guarantor and Non-Guarantor Subsidiary is wholly-owned by CONMED Corporation. Supplemental financial information on a condensed consolidating basis for the Parent Company Only, Subsidiary Guarantors and Non-Guarantor Subsidiary and for the Company as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 is included in our Annual Report on Form 10-K.

Board of Directors

Eugene R. Corasanti
Chairman of the Board and CEO

Joseph J. Corasanti, Esq.
President and COO

Bruce F. Daniels
Management Consultant and Retired Financial Executive, Chicago Pneumatic Tool Company

Stephen M. Mandia
President, CEO of East Coast Olive Oil, Inc.

William D. Matthews
Retired Chairman of the Board, Oneida Ltd.

Robert E. Remmell, Esq.
Partner in the law firm of Steates, Remmell, Steates and Dziekan

Stuart J. Schwartz, MD
Retired Physician

Corporate Officers

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Chairman of the Board and CEO

Joseph J. Corasanti, Esq.
President and COO

William W. Abraham
Senior Vice President

Thomas M. Acey
Treasurer and Secretary

Daniel S. Jonas, Esq.
General Counsel and Vice President – Legal Affairs

Alexander R. Jones
Vice President – Corporate Sales

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Vice President – Corporate Controller

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Vice President – Finance, CFO

Eugene T. Starr
President – CONMED Electrosurgery

John J. Stotts
Vice President – CONMED Patient Care

Frank R. Williams
Vice President – CONMED Endoscopy

Gerald G. Woodard
President – Linvatec Corporation

Shareholder Information

Interested shareholders may obtain a copy of the Company's Form 10-K without charge upon written request to:
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Utica, NY 13502

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Stock Symbol: CNMD

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Operating Subsidiaries
Bionx Implants, Inc.
Bionx Implants, Oy
CONMED Electrosurgery
CONMED Integrated Systems, Inc.
CONMED Integrated Systems Canada ULC
CONMED Receivables Corporation
Envision Medical Corporation
Linvatec Corporation
Linvatec Australia Pty. Ltd.
Linvatec Belgium S.A.
Linvatec Canada ULC
Linvatec Deutschland GmbH
Linvatec Europe SPRL
Linvatec France S.A.R.L.
Linvatec Korea Ltd.
Linvatec U.K. Ltd.

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Mission Statement

Our mission is to improve the quality of healthcare by designing, producing and marketing innovative, high-quality products.

Our emphasis is on customer satisfaction and sustained growth of shareholder equity.

In pursuit of our goals, we strive to demonstrate thoughtful leadership, provide meaningful opportunities for employees, and be a responsible member of the global and local communities in which we conduct business.

525 French Road, Utica, NY 13502 USA

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