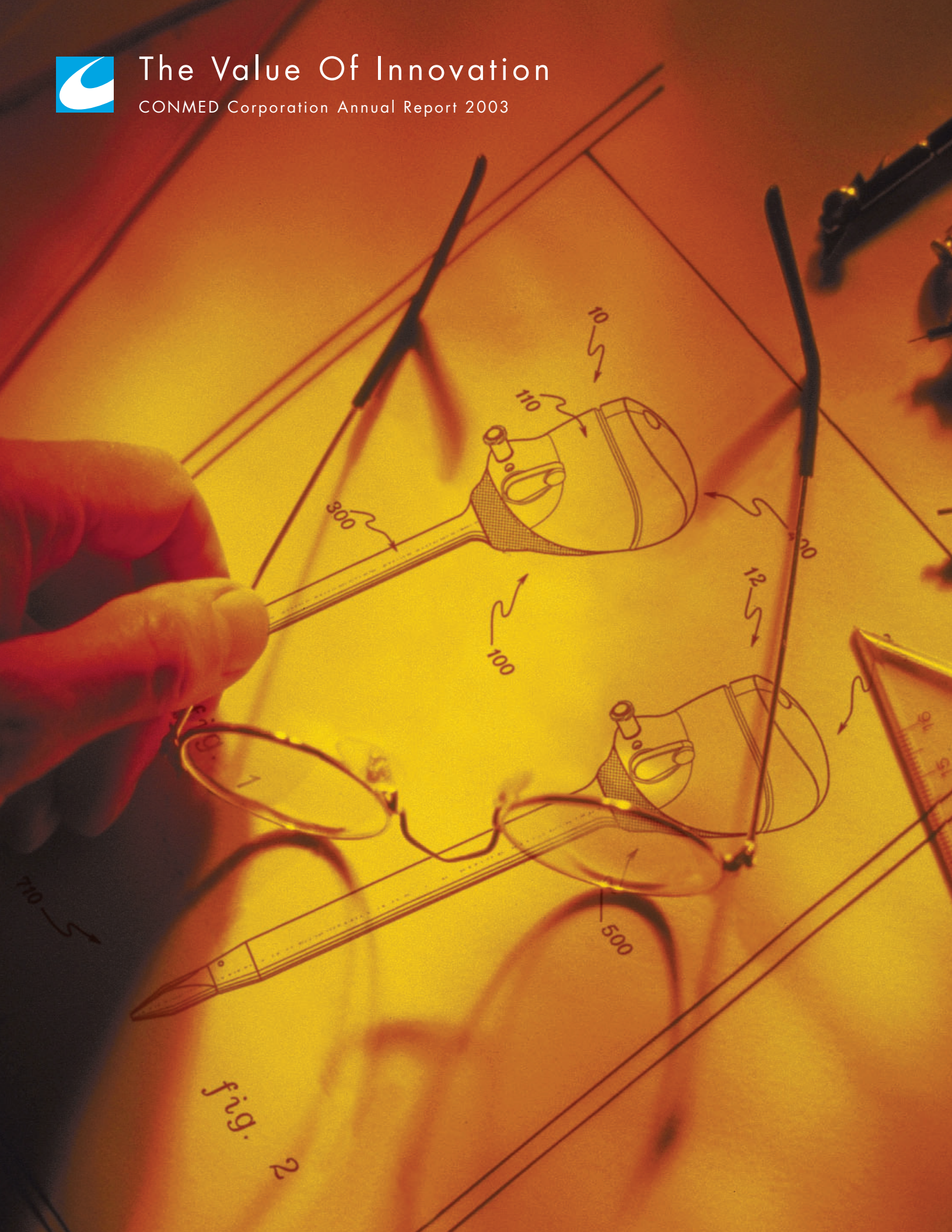
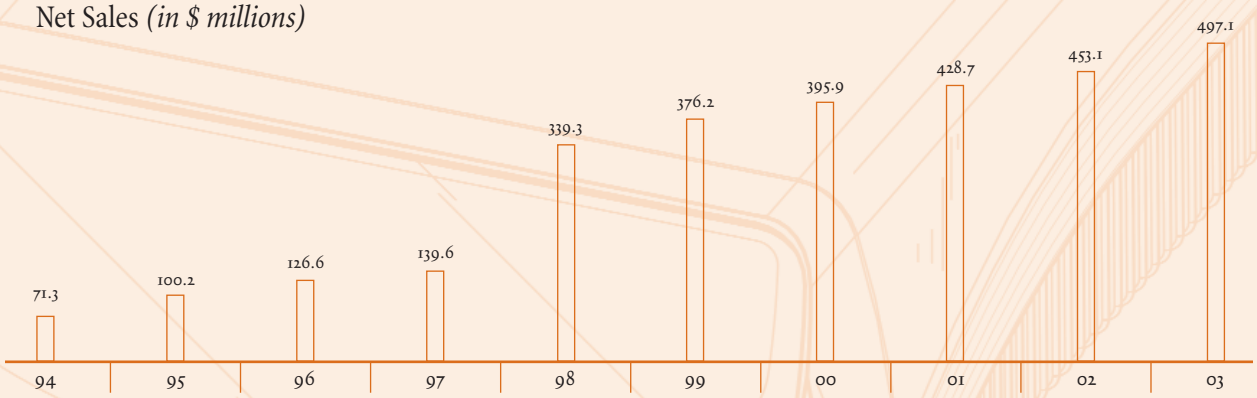
The Value Of Innovation

CONMED Corporation Annual Report 2003

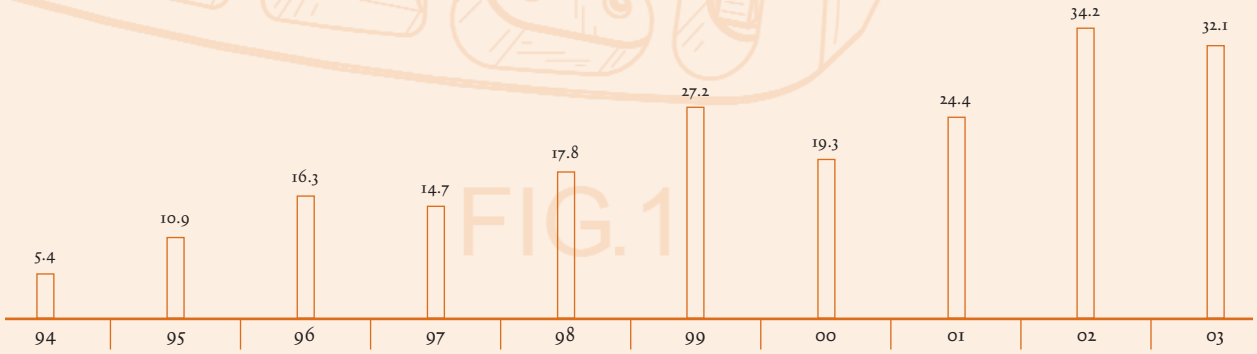


Financial Highlights

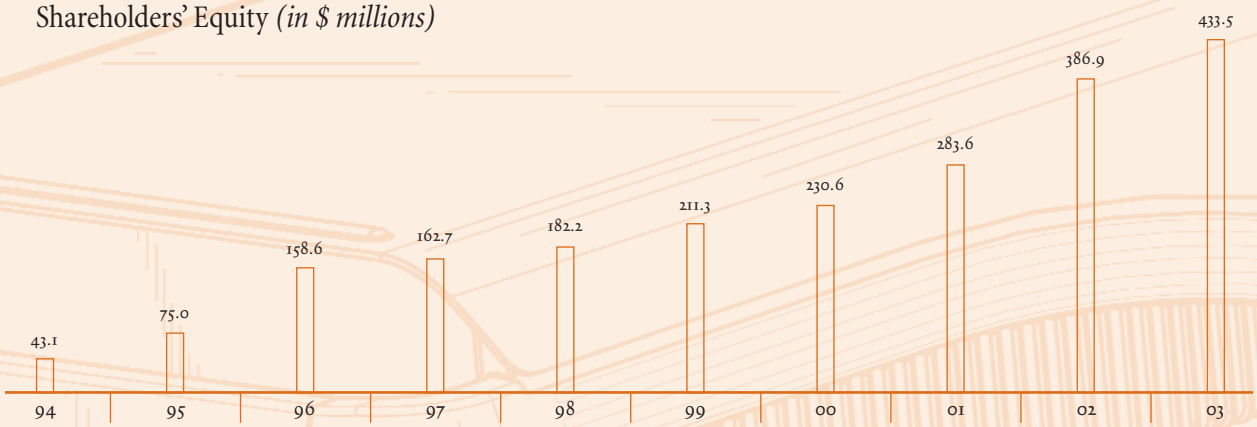
Net Sales *(in $ millions)*



Net Income[1] *(in $ millions)*



Shareholders' Equity *(in $ millions)*



[1]Excludes $34 million pre-tax in-process research and development charge in 1997 related to the acquisition of Linvatec Corporation.

Letter *to* Shareholders: *the* Year *in* Review

Eugene R. Corasanti

Joseph J. Corasanti

In 2003, we invested in virtually every aspect of each of our businesses, and our investments produced value: record revenues and record net income, excluding unusual charges and credits. The investments we made came in several forms: new product introductions; a strategic acquisition that brought recognized brands and key technology pipelines; changes in distribution which added to the number of "feet on the street" representing our products, both in the United States and internationally; and a strengthened balance sheet. Not content to limit our attention to any one of these areas, we worked on all of them—and experienced success with each.

Financial Performance

By almost any measure of financial performance, 2003 was a record year for CONMED. We experienced record sales for the sixteenth consecutive year, with revenues growing to $497 million, an increase of $44 million from the $453 million in sales produced during 2002. We also generated record earnings when measured without unusual charges and credits. Diluted earnings per share on a reported GAAP basis were $1.10 in 2003; without the unusual charges or credits, the earnings per share reached $1.51. A reconciliation of our reported GAAP earnings per share and our earnings per share without the unusual charges or credits is included on page 5 of this annual report.

We are encouraged not only by the overall level of our performance, but also by its breadth: all of our product lines delivered increased revenues and earnings. Our orthopedics business posted an 8.4% jump, with increases in Arthroscopy and Powered Surgical Instruments. Electrosurgery, one of CONMED's first product lines, generated double-digit increases, with Endoscopy posting even larger increases. Likewise, the Patient Care line, CONMED's other legacy product line, delivered positive growth even in the face of declining prices.

Even as we focused on growth in revenues and earnings in 2003, we continued to invest in our businesses, to position them for further growth in the years ahead. On a corporate level, our balance sheet is stronger. Though we started the year with the $47 million Bionx acquisition, we worked throughout 2003 to reduce our debt, and to reduce our cost of borrowings. By the end of the year, our debt-to-total-capitalization ratio was 38%, its lowest level in five years. Likewise, we reduced our interest costs in two separate refinancings. In the first, which was completed in June, we reduced the interest rate on $130 million of debt from 9% to a floating rate of LIBOR plus 2.75% or approximately 4%. In the second refinancing, which closed in December, we lowered the rates under our senior credit facility by 50 basis points to LIBOR plus 2.25%. These refinancings permitted us to reduce our

interest costs by approximately $3 million during 2003. We expect that our interest costs will be even lower in 2004, before considering the effects of reducing our borrowings through debt payments or any changes in interest rates.

New Technology and New Products

Of course, we were very pleased with these results, but we were not satisfied. So we continued to put time and effort into developing other areas. For example, we continued to introduce new products in each of our product lines. Continuing our tradition of innovation, the orthopedics group introduced a series of new offerings during 2003. In Arthroscopy, we introduced the Ultrafix™ Knotless Suture Anchor System designed for arthroscopic anterior shoulder instability procedures. We also added a new line of interference screws, the Bioscrew XtraLok™, which is specifically intended for tibial fixation of soft tissue grafts in ACL and PCL reconstruction. The new Linvatec SE (Stress Equalization) Graft Tensioning System™ allows the surgeon to tension the individual bundles of a hamstring graft in a reproducible manner, reducing the occurrence of loose ACL grafts. We also released a new ablation device, the LightWave™ in 2003. Utilizing our electrosurgical expertise, this device has been well received in the marketplace. A new suction version is currently due for full release in the second quarter of 2004. We also introduced a series of new shaver blade improvements, including the 5.5 mm UltraCut™ Shaver Blade and the 4.2 mm Straight Tiger™ Shaver Blade.

In Powered Surgical Instruments, we introduced our PowerPro® Electric II System. We now have both battery-powered and electric systems, and will follow shortly with a pneumatic system. The PowerPro® line of powered surgical instruments is unique in the market because it has been designed to allow the accessories to work across the full spectrum of power offerings: battery, electric and pneumatic. Customers appreciate the efficiencies associated with such a standardized offering.

We continued to lead with technology in Imaging. We are still the pioneer in autoclavable video systems, and released our fourth generation 3CCD Autoclavable Camera Head. Our new 1/4" Autoclavable Camera Head has a new look, which is significantly smaller in size and lighter in weight, and offers nearly three times the light sensitivity compared to our first generation product. We also expanded our line of 3CCD Camera Heads to include a head designed specifically for use in urological procedures.

Another significant product line release was our GS1000 Series™ Insufflator. Adding to our general surgery offering, it has the latest advances in functionality, cost-effectiveness and patient safety. Putting features like a newly designed in-line gas

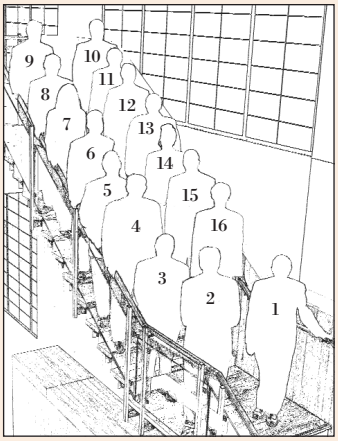
The Value of Innovation: One-Port™

CONMED Corporation offers its customers one of the medical industry's most diverse selections of innovative, state-of-the-art orthopedic, specialty, and general surgical devices and systems.

CONMED's various business units offer:

- Arthroscopy instruments and implants for the repair of soft tissue joint injuries.
- Powered Surgical Instruments, including drills and saws, for orthopedic and other specialty surgery on bone.
- Patient Care products that include a range of patient monitoring devices and other critical care products.
- Endoscopy instrumentation for laparoscopic surgical procedures.
- Electrosurgery systems with disposable, reusable and reposable products for cutting and coagulation at the surgical site.
- Integrated Systems covering operating room control systems and ceiling mounted devices for various types of surgical equipment.

Surgeons and medical personnel throughout the world know and trust CONMED products and services. CONMED's product lines are the synthesis of a technology alliance strategy designed to deliver to its customers innovation, quality and selection with the added convenience of purchasing from a single source.



The CONMED Management Team

1 Eugene R. Corasanti
2 Joseph J. Corasanti
3 William W. Abraham
4 Gerald G. Woodard
5 Darko Spoljaric
6 Terence M. Berge
7 Heather L. Cohen
8 Robert D. Shallish, Jr.
9 Russ Gill
10 Luke A. Pomilio
11 Frank R. Williams
12 Daniel S. Jonas
13 Alexander R. Jones
14 Elizabeth A. Bowers
15 John J. Stotts
16 Marc Caron

Our management team has significant experience in the medical device arena, in some cases going back to the founding of CONMED and in others going back equal periods with other medical device companies. While each member of the team has an individual mission—whether to grow sales of electrosurgery, endoscopy, orthopedic or patient care products—each member of the team is also cognizant of the overall corporate goals.

Our business model requires all members of the team to work together. Some of our marketing programs allow a single sales representative to offer our entire product offering to a single account. Some of the technologies we evaluate apply to more than one product group.

Our management team has been remarkably stable, and has overseen our growth from a single-line manufacturer at one site to a company with revenues expected to exceed a half billion dollars this year. While we are pleased with our progress thus far, our management team sees more opportunity ahead.

warmer, humidification system and dual port access into surgeons' hands makes performing even the most complicated endoscopy procedures seem easier. To complement our instruments for laparoscopic surgery, we also released a line of companion 10mm Extended Length Optical Scopes.

Our Electrosurgery group introduced a new generator, the System 5000™, which redefined the industry standard. Among other features, it provides a new control system, which we refer to as ESP™ or Energy Synchronous Processing™, new modes and unparalleled electrical control.

Our Endoscopy group introduced the OnePort™, the most ergonomic trocar on the market. It employs the latest in trocar technology to provide surgeons with flexibility and versatility and is able to accommodate a variety of instruments and procedures. We also introduced the Permaclip™ reposable clip applier, which combines the advantages of a reusable handle with disposable clip cartridge to deliver safety and effectiveness.

Patient Care introduced a collection of new products, including a series of cardiac stimulation electrodes for use with defibrillators, patient positioners for use during surgery, non-invasive blood pressure cuffs and sterile tape. At the end of the year, we completed a new distribution agreement which will take the Patient Care division into the pulse oximetry business. This provides proven technology to our customers at significant savings, and represents an important opportunity for CONMED.

We are committed to continuing our pace of new product introductions in 2004 and beyond, as evidenced by the introduction of 14 new products at the American Academy of Orthopedic Surgeons Annual Conference in early March 2004.

Distribution

We worked to improve our distribution in 2003. In our orthopedics business, we increased the number of domestic sales representatives handling our products from 180 at the beginning of the year to 230 by December 2003. Similarly, with our Electrosurgery, Endoscopy, and Patient Care sales forces, as well as our international sales representatives, we continued the extensive training programs we had started in 2002, with the result that more physicians are learning about the products we offer. This training effort has continued to produce strong results. International sales have increased in absolute and relative terms. Sales outside the United States reached record levels: $164 million for 2003, representing 33% of total revenues, the highest level since the company's founding.

"*By* almost *any* measure *of* financial performance, 2003 *was a* record year *for* CONMED."

Acquisitions

We continued our string of acquisitions, with one significant business purchased during 2003. Our acquisition of Bionx Implants improved our position in the procedure-specific area of Arthroscopy with the Meniscus Arrow™, a bioabsorbable implant for meniscal repairs made with patented self-reinforced polymer technology, as well as other resorbable polymer implants, screws, pins and arrows. Bionx also came with a strong pipeline of products in development, and a state-of-the-art manufacturing facility in Finland. We expect to expand the use of the proprietary manufacturing and processing techniques into other implantable products in the future.

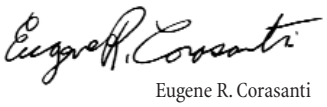
Our Employees

Our employees at every level of the Company—from manufacturing and regulatory affairs to customer service and sales—have repeatedly proven their dedication to our corporate goals. We recognize and applaud their hard work and efforts throughout 2003. Without them, we could not have achieved the results we produced during 2003.

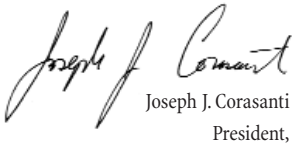
The Outlook

We look forward to the future. We believe our business model, which produced strong growth in our revenues and operations during 2003, is fundamentally sound. Our management team is solid, and our focus is sharp.

We are determined to execute our strategy with persistence and attention to detail. Our best days lie before us. As always, 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

Reconciliation of Reported Net Income to Net Income Before Unusual Items[2]

(In thousands except per share amounts)

Twelve months ended December 31,	2002	2003
Reported net income	$ 34,151	$ 32,082
Acquisition-related costs included in costs of sales	—	1,253
Write-off of purchased in-process research and development assets	—	7,900
Gain on settlement of a contractual dispute	—	(9,000)
Pension settlement loss	—	2,839
Other acquisition-related costs	—	3,244
Loss on settlement of a patent dispute	2,000	—
Loss on early extinguishment of debt	1,475	8,078
Total unusual items	3,475	14,314
Provision (benefit) for income taxes on unusual items	(1,251)	(2,309)
Net income before unusual items	$ 36,375	$ 44,087
Per share data:		
Reported net income		
Basic	$ 1.25	$ 1.11
Diluted	1.23	1.10
Net income before unusual items		
Basic	$ 1.33	$ 1.52
Diluted	1.31	1.51

[2] This table is provided to reconcile certain financial disclosures referenced in the Letter to Shareholders. Management has provided this reconciliation of net income before unusual items as an additional measure that investors can use to evaluate operating performance. Management believes this reconciliation provides a useful presentation of operating performance.

Sales *and* Distribution: *the* Connection Between CONMED *and the* Customer

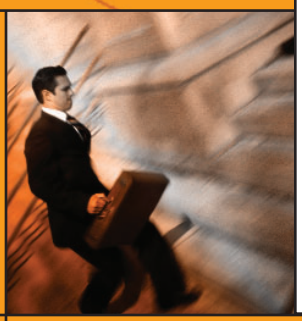
Our products do not sell themselves. Our customers know CONMED through the sales professionals who represent our products. We have a number of sales representatives who focus on each of our product lines, and the relationship between CONMED and its customers grows and develops through these individuals. There are over 360 sales professionals in the United States selling our products: 230 covering Arthroscopy and Powered Surgical Instruments, 12 in Corporate Sales and Integrated Systems, 30 in Endoscopy, 30 in Patient Care and 60 in Electrosurgery. Worldwide, including the sales representatives of our distributors, the number is reaching 1,000.

While numbers are important, they are not the only measure of the effectiveness of our sales efforts. Quality is as important as quantity, and the quality of our sales professionals is first-rate. All our sales representatives participate in an extensive initial training program, and receive regular courses, seminars and instruction on existing products, new products and how to listen to customers.

We are committed to this continual investment in our sales professionals. In order for our relationships with customers to be strong, we must know what our customers need today, and must anticipate what their needs will be tomorrow.

Our "customer" can be a surgeon, a hospital, a same-day surgery center, a materials manager, a government, a distributor, a group purchasing organization or any other number of people and entities. Just as our customers do not fit neatly into a single profile, their needs vary. Our customers do not expect a one-size-fits-all approach. We strive to offer a complete range of products that can satisfy any customer preference.

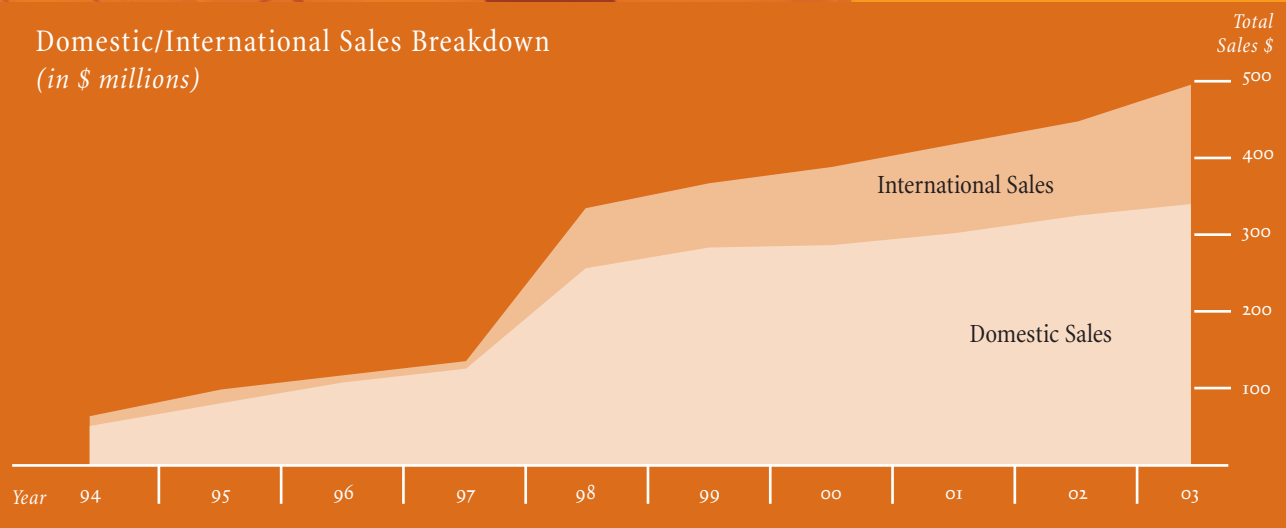
Our product offering reflects the variety of our customers' needs. For example, in our Powered Instruments line, we offer all three varieties of power: battery, electric and pneumatic. In Endoscopy, we offer disposables, reposables and reusables. In Electrosurgery, we offer generators, pencils, pads and accessories.



The breadth of our product lines is carefully planned and developed by listening to our customers. It has been the driving force for our research and development efforts, as well as our acquisitions planning and strategic distribution arrangements.

The quality of the relationship between the customer and the sales professional depends on the sales professional's ability to deliver on commitments: the commitment to deliver product on time, the commitment to provide products of the highest quality, and the commitment to deliver value, in price and performance. At CONMED, we honor these commitments each and every day by offering a wide range of solutions to meet the needs of all our customers.

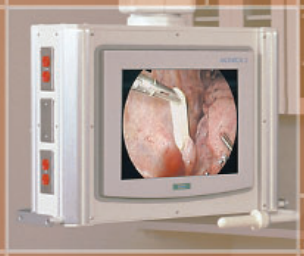
Domestic/International Sales Breakdown
(in $ millions)



The Power *of* Integration

CONMED brings the power of integration to the operating room, ICU and other critical care patient environments. Our focus is on greater flexibility, better access, ergonomics, staff safety and patient care.

The Digital SMART OR™ System is a complete turnkey solution designed to offer maximum benefit to surgeons, nurses and administrators. To maximize procedural efficiency, the Digital SMART OR™ System offers centralized room control including data management, communication and networking capabilities via a safe, reliable and easy-to-use interface.



This unique OR solution also offers unequalled flexibility. Based on a truly modular design, the system can be adapted to the needs of multiple surgeons and procedures at the touch of a button. The Digital SMART OR™ System is also readily scalable, making future upgrades simple and cost-effective.

At the heart of the Digital SMART OR™ System is the Nurse's Assistant® Centralized Touch Screen OR Control System. This unique platform offers centralized control of the entire OR from a single, easy-to-use touch screen panel. Cameras, insufflators, surgical lighting, electrosurgical generators and video/web conferencing equipment can be controlled from the nurse's workstation via an intuitive interface. The Nurse's Assistant® system increases OR team efficiency and return on investment.

The CONMED Smart System simplifies, organizes and easily adjusts to the user's needs and requirements in the OR, ICU, PACU or any other critical patient care area.


CONMED

New Products: *a* Continuing Tradition *of* Innovation

CONMED began selling medical devices in the early 1970's with a single-use ECG monitoring electrode that we developed ourselves. In those early years, our business grew by developing innovative products that met customer needs. In the case of the ECG electrode, our product helped reduce hospital costs and cross infections from repeated use of monitoring electrodes. While we have grown dramatically since that first product was sold, we still recognize the value of product innovation for the continued growth and success of our business.

Several new products helped us grow in 2003. The PowerPro® Powered Instrument battery system gained traction in 2003 and was largely responsible for the improvement in our Powered Instrument business compared to 2002. The Electrosurgery product line's growth in 2003 of 11% was a result of the new System 5000™ electrosurgical generator's sales. In Arthroscopy, we experienced higher growth in the fourth quarter of 2003 as a result of the introduction of our latest generation of autoclavable video camera. These and other newly introduced products helped make 2003 a year of record revenues.

For 2004 and beyond, we will continue to invest in research and development activities. Although the majority of these research activities are directed to our orthopedic product lines, we also devote resources to Electrosurgery, Endoscopy and Patient Care. Already in early 2004 we have introduced 14 new orthopedic products at the 2004 American Academy of Orthopedic Surgeons Conference. These orthopedic products, and others which are expected to be available during 2004, will continue to enhance our already broad product offering and help us maintain our position of leadership in the medical device industry.

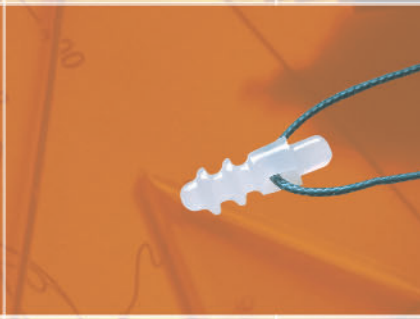
10K™ Fluid Pump

3CCD Autoclavable Video Camera

PowerPro® Pneumatic

System 5000™

SmartNail®



Pre-Loaded Bio-Anchor®

PowerPro® Battery

Impact™ Suture Anchor

UltraCut® Blade

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, 2003, there were 1,166 registered holders of our common stock and approximately 6,000 accounts held in "street name".

The following table sets forth quarterly high and low sales prices for the years ended December 31, 2002 and 2003, as reported by the Nasdaq Stock Market.

	2002		2003	
Period	High	Low	High	Low
First Quarter	$ 25.00	$ 19.29	$ 20.74	$ 13.95
Second Quarter	27.00	22.25	20.83	16.69
Third Quarter	22.72	15.60	22.00	18.21
Fourth Quarter	21.52	18.10	24.30	19.52

We did not pay cash dividends on our common stock during 2002 and 2003. 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,	1999	2000	2001	2002	2003
Consolidated Statement of Income[1]:					
Net sales	$ 376,226	$ 395,873	$ 428,722	$ 453,062	$ 497,130
Income from operations	74,796	64,464	68,958	79,349	79,955
Net income[2][3]	$ 27,159	$ 19,314	$ 24,406	$ 34,151	$ 32,082
Earnings per share[4]					
Basic	$ 1.19	$ .84	$ 1.02	$ 1.25	$ 1.11
Basic adjusted for SFAS 142[3]	$ 1.41	$ 1.08	$ 1.25	$ 1.25	$ 1.11
Diluted	$ 1.17	$ .83	$ 1.00	$ 1.23	$ 1.10
Diluted adjusted for SFAS 142[3]	$ 1.39	$ 1.07	$ 1.23	$ 1.23	$ 1.10
Weighted average number of common shares in calculating[4]:					
Basic earnings per share	22,862	22,967	24,045	27,337	28,930
Diluted earnings per share	23,145	23,271	24,401	27,827	29,256
Other Financial Data:					
Depreciation and amortization	$ 26,291	$ 29,487	$ 30,148	$ 22,370	$ 24,854
Capital expenditures	9,352	14,050	14,443	13,384	9,309
Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 3,747	$ 3,470	$ 1,402	$ 5,626	$ 5,986
Total assets	662,161	679,571	701,608	742,140	805,058
Long-term debt (including current portion)	394,669	378,748	335,929	257,387	264,591
Total shareholders' equity	211,261	230,603	283,634	386,939	433,490

(1) Includes, based on the purchase method of accounting, the results of operations of acquired businesses from the date of acquisition. See additional discussion in Note 2 to the consolidated financial statements.

(2) Includes acquisition, debt refinancing and other unusual charges and credits. See additional discussion in Notes 2, 6 and 12 to the consolidated financial statements.

(3) 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, net income would have been $32.2 million in 1999, $24.9 million in 2000 and $30.1 million in 2001.

(4) Earnings per share and the number of shares used in the calculation of earnings per share have been restated to retroactively reflect a three-for-two split of our common stock effected in the form of a common stock dividend and paid on September 7, 2001.

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.

Overview of CONMED Corporation

CONMED Corporation ("CONMED", the "Company", "we" or "us") is a medical technology manufacturing company with six major product lines. These product lines and the percentage of consolidated revenues associated with each of them, are as follows:

	2001	2002	2003
Arthroscopy	36%	36%	36%
Powered Surgical Instruments	27	25	25
Electrosurgery	16	15	15
Patient Care	16	16	14
Endoscopy	5	8	9
Integrated Operating Room Systems	—	—	1
Consolidated Net Sales	100%	100%	100%

Most of our products are used in surgeries with about 75% of our sales coming from sales of disposable products. We manufacture most of our products in plants in the United States. We sell in the United States and internationally both direct to customers and through distributors. International sales approximated 29% of total net sales in 2001 and 2002 and 33% of total net sales in 2003.

Business Environment, Opportunities and Challenges

As a result of an aging population and improved surgical procedures, we believe the overall market for our products is growing. We intend to increase our overall market share by leveraging our entire portfolio of products to increase sales and profits. An example of this is our entry in 2002 into the business of integrated operating room systems and equipment. We can now offer "one-stop shopping" to our customers by designing and installing integrated operating rooms and then providing the capital and disposable products for use in them.

Where we believe it makes sense, we plan to continue to pursue acquisitions which enable us to fill gaps in or strengthen our product lines. In addition, we may enter into agreements which enable us to quickly and inexpensively expand our product lines and leverage our distribution channels without an acquisition. An example of this is the agreement which we entered in December 2003 with OSI Systems, Inc., and its subsidiary, Dolphin Medical, Inc., under which we are now the exclusive North American distributor for a full line of pulse oximetry products. These products will become part of our Patient Care product line.

Certain of our products, particularly our line of surgical suction instruments and tubing and our line of ECG electrodes, are more commodity in nature, with limited opportunity for product differentiation. These products compete in very mature, price sensitive markets. As a result, while sales volumes are increasing, we have experienced and expect we will continue to experience pricing and margin pressures in these product lines. We believe we can continue to profitably compete in these product lines by maintaining and improving upon our low cost manufacturing structure. In addition, we expect to continue to use the cash generated from sales of these relatively low margin, low investment products to invest in, improve and expand our higher margin product lines.

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.
- 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 equipment shipment and we recognize revenue upon the disposable product shipment. The cost of the equipment is amortized over the terms of the commitment agreements.
- 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 customer returns and credits, rebates, discounts and current market conditions.
- 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 based upon analysis of historical data.
- Amounts billed to customers related to shipping and handling are included in net sales. Shipping and handling costs of $8.6 million, $7.5 million and $8.3 million for the years ended December 31, 2001, 2002 and 2003, 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 $1.7 million at December 31, 2003 is adequate to provide for any probable losses from accounts receivable.

Inventory Reserves

We maintain reserves for excess and obsolete inventory resulting from the potential inability to sell our products at prices in excess of current carrying costs. The markets in which we operate are highly competitive, with new products and surgical procedures introduced on an on-going basis. Such marketplace changes may cause our products to become obsolete. We make estimates regarding the future recoverability of the costs of our

products and record a provision for excess and obsolete inventories based on historical experience, expiration of sterilization dates and expected future trends. If actual product life cycles, product demand or acceptance of new product introductions are less favorable than projected by management, additional inventory write-downs may be required.

Business Acquisitions

We completed several acquisitions in 2003, including the Bionx acquisition with a purchase price of $47.0 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 $290.6 million and other intangible assets of $194.0 million as of December 31, 2003.

In accordance with Statement of Financial Accounting Standards 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 at least 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 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.

In connection with the Bionx acquisition, significant estimates were made in the $7.9 million valuation of the purchased in-process research and development assets. The purchased in-process research and development value relates to next generation arthroscopy products, which have been or are expected to be released between the second quarter of 2003 and fourth quarter of 2004. The acquired projects include enhancements and upgrades to existing device technology, introduction of new device functionality and the development of new materials technology for arthroscopic applications.

The value of the in-process research and development was calculated using a discounted cash flow analysis of the anticipated net cash flow stream associated with the in-process technology of the related product sales. The estimated net cash flows were discounted using a discount rate of 22%, which was based on the weighted-average cost of capital for publicly-traded companies within the medical device industry and adjusted for the stage of completion of each of the in-process research and development projects. The risk and return considerations surrounding the stage of completion were based on costs, man-hours and complexity of the work completed versus to be completed and other risks associated with achieving technological feasibility. In total, these projects were approximately 40% complete as of the acquisition date. The total budgeted costs for the projects were approximately $5.5 million and the remaining costs to complete these projects were approximately $3.3 million as of the acquisition date.

The major risks and uncertainties associated with the timely and successful completion of these projects consist of the ability to confirm the safety and efficacy of the technologies and products based on the data from clinical trials and obtaining the necessary regulatory approvals. In addition, no assurance can be given that the underlying assumptions used to forecast the cash flows or the timely and successful completion of such projects will materialize, as estimated. For these reasons, among others, actual results may vary significantly from the estimated results.

See Note 2 to the consolidated financial statements for further discussion.

Pension Plans

We sponsor three defined benefit pension plans covering substantially all our employees. These pension plans were merged effective January 1, 2004. Major assumptions used in the accounting for the 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 plan's measurement date. A change in any of these assumptions would have an effect on net periodic pension benefit costs reported in the consolidated financial statements.

Lower market interest rates have caused us to lower the discount rate used in determining pension expense from 6.75% in 2003 to 6.25% in 2004. This change in assumption will result in higher pension expense in 2004.

We have used an expected rate of return on pension plan assets of 8.0% for purposes of determining the net periodic pension benefit cost. In determining the expected return on pension plan assets, we consider the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. In addition, we consult with financial and investment management professionals in developing appropriate targeted rates of return. As a result of funding the maximum deductible pension contributions in 2003, pension plan assets have increased substantially, which will result in higher expected returns and decreased pension expense in 2004.

Based on these and other factors, 2004 pension expense is estimated at approximately $5.0 million. Actual expense may vary significantly from this estimate.

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 approximately $15.5 million at December 31, 2003. 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.

We have established a valuation allowance to reflect the uncertainty of realizing the benefits of certain net operating loss carryforwards recognized in connection with the Bionx acquisition. 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

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	2003
Net sales	100.0%	100.0%	100.0%
Cost of sales	47.7	47.7	47.8
Gross margin	52.3	52.3	52.2
Selling and administrative expense	32.8	30.8	31.7
Research and development expense	3.5	3.6	3.4
Write-off of purchased IPRD	—	—	1.7
Other expense (income)	—	0.4	(0.6)
Income from operations	16.0	17.5	16.0
Loss on early extinguishment of debt	—	0.3	1.6
Interest expense	7.2	5.5	3.7
Income before income taxes	8.8	11.7	10.7
Provision for income taxes	3.1	4.2	4.2
Net income	5.7%	7.5%	6.5%

2003 Compared to 2002

Sales for 2003 were $497.1 million, an increase of $44.0 million (9.7%) compared to sales of $453.1 million in 2002. The acquisition of Bionx Implants, Inc. in March 2003 (the "Bionx acquisition") accounted for $12.6 million of the increase, the acquisition of CORE Dynamics, Inc. in December 2002 (the "CORE acquisition") accounted for $7.2 million of the increase and favorable foreign currency exchange rates accounted for $10.8 million of the increase. The Bionx and CORE acquisitions are described more fully in Note 2 to the consolidated financial statements.

- Arthroscopy sales increased $15.5 million (9.6%) in 2003 to $177.4 million from $161.9 million in 2002, largely as a result of the Bionx acquisition.
- Powered surgical instrument sales increased $7.7 million (6.7%) in 2003 to $122.0 million from $114.3 million in 2002, largely on increased sales of our new PowerPro® battery-powered instrument product line.
- Patient care sales increased $0.3 million (0.4%) in 2003 to $70.0 million from $69.7 million in 2002 as sales of our ECG and surgical suction product lines continue to face significant competition and pricing pressures.
- Electrosurgery sales increased $7.6 million (10.9%) in 2003 to $77.3 million from $69.7 million in 2002, as a result of strong sales of our new System 5000® electrosurgical generator.
- Endoscopy sales increased $9.0 million (24.5%) in 2003 to $45.8 million from $36.8 million in 2002, largely as a result of the CORE acquisition.
- Integrated operating room systems sales for 2003 were $4.6 million as a result of a full year of the two acquisitions comprising this product line as compared to $0.7 million for the last two months of 2002.

Cost of sales increased to $237.4 million in 2003 compared to $215.9 million in 2002, primarily as a result of the increased sales volumes described above. Gross margin percentage decreased slightly to 52.2% in 2003 as compared to 52.3% in 2002. As discussed in Note 2 to our consolidated financial statements, during 2003, we incurred $1.3 million in acquisition-related charges which are included in cost of sales. Additionally, as noted above, our ECG and surgical suction product lines continue to face significant competition and pricing pressures resulting in a lower gross margin in these product lines.

Selling and administrative expense increased to $157.5 million in 2003 as compared to $139.7 million in 2002. As a percentage of sales, selling and administrative expense totaled 31.7% in 2003 compared to 30.8% in 2002. The increase in selling and administrative expense as a percentage of sales is due largely to the transition to a larger, independent sales agent based sales force for our arthroscopy and powered surgical instrument product lines. During 2003, we restructured our arthroscopy and powered surgical instrument sales force by increasing our domestic sales force from 180 to 230 sales representatives. The increase is part of our integration plan for the Bionx acquisition. As part of the sales force restructuring, we converted 90 direct employee sales representatives into nine independent sales agent groups. As a result of this restructuring, we now have 18 exclusive sales agent groups managing 230 arthroscopy and powered surgical instrument sales representatives. The transition in the sales force and its greater number of sales staff is expected to result in higher future sales growth in our arthroscopy and powered surgical instrument product lines.

Research and development expense totaled $17.3 million in 2003 compared to $16.1 million in 2002. This increase is largely due to the Bionx acquisition and represents continued research and development efforts focused primarily on product development in the arthroscopy and powered surgical instrument product lines. As a percentage of sales, research and development was 3.4%, consistent with 3.6% in 2002.

We wrote off purchased in-process research and development assets of $7.9 million in connection with the Bionx acquisition in the first quarter of 2003. This item is explained in further detail in Note 2 to the consolidated financial statements.

Other income in 2003 consists of a $9.0 million gain on settlement of a contractual dispute offset by pension settlement losses of $2.8 million and acquisition-related charges of $3.2 million. Other expense incurred during 2002 consists of a $2.0 million loss on the settlement of a patent dispute. These items are explained in further detail in Note 12 to the consolidated financial statements.

Losses on early extinguishment of debt of $8.1 million in 2003 and $1.5 million in 2002 are related to the refinancing of our debt agreements. These items are explained in further detail in Note 6 to the consolidated financial statements.

Interest expense in 2003 was $18.9 million compared to $24.5 million in 2002. The decrease in interest expense is primarily a result of lower weighted average borrowings outstanding in 2003 as compared to 2002 as well as lower weighted average interest rates on our borrowings, (inclusive of the implicit finance charge on our accounts receivable sale facility), which decreased to 5.96% in 2003 as compared to 7.55%, in 2002, as the 9.0% Senior Subordinated Notes (the "Notes") were retired in favor of lower cost bank debt as discussed in Note 6 to the consolidated financial statements.

Provision for income taxes has been recorded at an effective rate of 39.5% in 2003 and 36.0% in 2002. The increase in effective rate is due to the nondeductibility of the in-process research and development charge. A reconciliation of the United States statutory income tax rate to our effective tax rate is included in Note 7 to the consolidated financial statements.

2002 Compared to 2001

Sales for 2002 were $453.1 million, an increase of $24.4 million (5.7%) compared to sales of $428.7 million in 2001. The acquisition of Imagyn Medical Technologies, Inc. in July 2001 (the "Imagyn acquisition") accounted for $10.4 million of the increase and favorable foreign currency exchange rates accounted for $2.0 million of the increase. The Imagyn acquisition is described more fully in Note 2 to the consolidated financial statements.

- Arthroscopy sales increased $6.3 million (4.0%) in 2002 to $161.9 million from $155.6 million in 2001, on strong sales of disposable products and video equipment.
- Powered surgical instrument sales remained flat at $114.3 million in 2002 and 2001. We believe the weakness in sales in the powered surgical instrument product line is 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 as PowerPro® is established in the marketplace, as was evidenced in 2003, it will enable us to resume overall growth in powered surgical instrument sales.
- Patient care sales increased $0.6 million (0.9%) in 2002 to $69.7 million from $69.1 million in 2001 as increases in sales of our ECG and other patient care product lines offset declines in sales of our surgical suction product lines which continue to face significant competition and pricing pressures.
- Electrosurgery sales increased $2.8 million (4.2%) in 2002 to $69.7 million from $66.9 million in 2001, driven by increases in disposable product sales.
- Endoscopy sales increased $14.0 million (61.4%) in 2002 to $36.8 million from $22.8 million in 2001. The increase is largely a result of the Imagyn acquisition.
- Integrated operating room systems sales for 2002 were $0.7 million as a result of two acquisitions in the fourth quarter of 2002.

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. Gross margin percentage remained consistent at 52.3% in 2002 as compared with 2001. As discussed in Note 2 to our consolidated financial statements, during 2001 we incurred $1.6 million in acquisition-related charges which are included in cost of sales. During 2002, we sold sample PowerPro® product, pursuant to a distribution agreement, at gross margins lower than the margins realized for units sold to end-user customers. In addition, during 2002 we experienced certain unfavorable production variances.

Selling and administrative expense decreased to $139.7 million in 2002 as compared to $140.6 million 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 and the discontinuation of amortization of goodwill and certain intangibles. As a percentage of sales, selling and administrative expense totaled 30.8% in 2002 compared to 32.8% in 2001. The decrease in selling and administrative expense as a percentage of sales is due to reduced amortization expense as a result of the adoption of SFAS 142.

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, arthroscopy and powered surgical instrument product lines. As a percentage of sales, research and development was 3.6%, consistent with 3.5% in 2001.

Other expense incurred during 2002 consists of a $2.0 million loss on the settlement of a patent dispute. This charge is explained in further detail in Note 12 to the consolidated financial statements.

Losses on early extinguishment of debt of $1.5 million in 2002 are related to the refinancing of our debt agreements. These items are explained in further detail in Note 6 to the consolidated financial statements.

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 weighted average borrowings outstanding in 2002 as compared to 2001 as well as lower weighted average interest rates on our borrowings, (inclusive of the implicit finance charge on our accounts receivable sale facility), which decreased to 7.55% in 2002 as compared to 8.08% in 2001.

Provision for income taxes has been recorded at an effective rate of 36% for 2002 and 2001. A reconciliation of the United States statutory income tax rate to our effective tax rate is included in Note 7 to the consolidated financial statements.

Liquidity and Capital Resources

Cash generated from our operations, including sales of accounts receivable and borrowings under our revolving credit facility, provide the working capital for our operations, debt service under our senior credit agreement and the funding of our capital expenditures. In addition, we use term borrowings, including:

- borrowings under our senior credit agreement;
- borrowings under separate loan facilities, in the case of real property acquisitions, to finance our acquisitions.

Cash Provided by Operations

Our net working capital position was $146.3 million at December 31, 2003. Net cash provided by operations increased to $58.0 million in the year ended December 31, 2003 compared to $44.9 million in 2002.

Net cash provided by operations in 2003 was positively impacted by the following: depreciation, amortization and deferred income taxes; the non-cash write-off of the remaining unamortized deferred financing costs related to the extinguishment of our 9% senior subordinated notes; the non-cash write-off of purchased in-process research and development assets; and increased sales of accounts receivable and an increase in income taxes payable.

Net cash provided by operations in 2003 was negatively impacted by the following: $11.1 million in pension contributions in excess of the $8.4 million in net periodic pension benefit cost recognized in the consolidated statement of income made to reduce the underfunding of our pension plans; the increase in working capital as a result of the Bionx acquisition (discussed in Note 2 to the consolidated financial statements); increases in accounts receivable and inventory as a result of growth in our business; and decreases in accounts payable and accrued interest, primarily related to the timing of the payment of these liabilities.

Investing Cash Flows

Net cash used by investing activities in 2003 included $55.1 million in payments related to business acquisitions, net of cash acquired, most of which is related to the Bionx acquisition and the remainder related to several smaller acquisitions as discussed in Note 2 to the consolidated financial statements.

Capital expenditures in 2003 were $9.3 million compared to $13.4 million in 2002. The decrease in capital expenditures compared to a year ago is a result of the completion of several large capital projects. Capital expenditures representing the ongoing capital investment requirements of our business are expected to continue at the rate of approximately $9.0 to $12.0 million annually.

Financing Cash Flows

Financing activities in 2003 consist primarily of $160.0 million in borrowings under the senior credit agreement and the retirement, primarily in June 2003, of $130.0 million in 9.0% senior subordinated notes (discussed in Note 6 to the consolidated financial statements). In addition to the

retirement of the $130.0 million in Notes, the Company repaid an additional $22.8 million in borrowings originating largely as a result of the Bionx acquisition (discussed in Note 2 to the consolidated financial statements). Annual savings in interest costs based on December 31, 2003 borrowing and interest rate levels as a result of the retirement of the Notes is estimated at approximately $6.0 million.

Our senior credit agreement consists of a $100 million revolving credit facility and a $260 million term loan. There were no borrowings outstanding on the revolving credit facility as of December 31, 2003. The balance outstanding on the term loan facility at December 31, 2003 was $243.0 million. The term loan facility extends for approximately 6 years, with scheduled principal payments of $2.6 million annually through December 2007 increasing to $71.0 million in 2008 and the remaining balance outstanding due in December 2009. We may be required, under certain circumstances, to make additional principal payments based on excess cash flow as defined in the amended senior credit agreement. No such payments were required for the year ended December 31, 2003. Interest rates on the term facility are LIBOR plus 2.25% (3.41% at December 31, 2003). Interest rates on the revolving credit facility are LIBOR plus 2.50% (3.66% at December 31, 2003).

The senior credit agreement is collateralized by substantially all of our personal property and assets, except for our accounts receivable and related rights which have been sold in connection with our accounts receivable sales agreement. The 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 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.

We used term loans to purchase the property in Largo, Florida utilized by our Linvatec subsidiary. The debt assumed in 2001 in connection with the purchase consists of a note bearing interest at 7.50% per annum with semiannual payments of principal and interest through June 2009 (the "Class A note"); and a note bearing interest at 8.25% per annum compounded semiannually through June 2009, after which semiannual 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 aggregated $12.3 million, $6.2 million and $4.2 million, respectively, at the date of acquisition. The principal balances outstanding on the Class A note, Class C note and seller-financed note aggregate $9.6 million, $7.5 million and $3.8 million, respectively, at December 31, 2003. These loans are secured by our Largo, Florida property.

Off-Balance Sheet Arrangements

We have an 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, bankruptcy-remote, 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 accounts receivable sales agreement was amended and restated on substantially the same terms and conditions on October 23, 2003 but replaced the commercial paper conduit with a bank. The commercial paper conduit or the bank's (the "purchaser") share of collections on accounts receivable are calculated as defined in the accounts receivable sales agreement, as amended. Effectively, collections on the pool of receivables flow first to the purchaser and then to CRC, but to the extent that the purchaser's share of collections were less than the amount of the 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 purchaser. As of December 31, 2002 and 2003, the undivided percentage ownership interest in receivables sold by CRC to the purchaser aggregated $37.0 million and $44.0 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 purchaser's financing costs to purchase the accounts receivable, were $1.2 million and $0.8 million, in 2002 and 2003, respectively and are included in interest expense.

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 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 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, as amended, also requires us to obtain a commitment (the "purchaser commitment"), on an annual basis, from the purchaser to fund the purchase of our accounts receivable. The purchaser commitment expires October 21, 2004. In the event we are unable to renew our purchaser commitment, we would need to access an alternate source of working capital, such as our $100 million revolving credit facility.

Contractual Obligations

The following table summarizes our contractual obligations for the next five years and thereafter (amounts in thousands). There were no capital lease obligations as of December 31, 2003:

		Payments Due by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt	$ 264,591	$ 4,143	$ 8,862	$ 78,171	$ 173,415
Purchase obligations	19,700	1,200	5,500	13,000	—
Operating lease obligations	11,832	2,127	3,571	3,407	2,727
Total contractual obligations	$ 296,123	$ 7,470	$17,933	$ 94,578	$ 176,142

Stock-based Compensation

We have reserved shares of common stock issuance to employees and directors under three 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.

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, 2003, we have not entered into any forward foreign currency exchange contracts to hedge the effect of foreign currency exchange fluctuations. During 2003, changes in foreign currency exchange rates increased our sales by approximately $10.8 million and income before income taxes by approximately $7.8 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, 2003, we had entered into an interest rate swap with a $50.0 million notional amount expiring in June 2004 which effectively converts $50.0 million of the approximate $243.0 million of floating rate borrowings under our senior credit agreement into fixed rate borrowings with a base interest rate of 3.63%. Assuming we make our 2004 scheduled term loan payments, if market interest rates for similar borrowings average 1% more in 2004 than they did in 2003, our interest expense, after considering the effects of our interest rate swap, would increase, and income before income taxes would decrease by $2.3 million. Comparatively, if market interest rates averaged 1% less in 2004 than they did during 2003, our interest expense, after considering the effects of our interest rate swap, would decrease, and income before income taxes would increase by $2.3 million. These amounts are determined by considering the impact of hypothetical interest rates on our borrowing cost and interest rate swap agreement and do 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;
- the ability to evaluate, finance and integrate acquired businesses, products and companies;
- changes in business strategy;
- the possibility that United States or foreign regulatory and/or administrative agencies may initiate enforcement actions against us or our distributors;
- future levels of indebtedness and capital spending;
- 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.

Report *of* Independent Auditors

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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, 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".

PricewaterhouseCoopers LLP

Syracuse, New York
February 27, 2004

PRICEWATERHOUSECOOPERS

Consolidated Balance Sheets

December 31, 2002 and 2003
(In thousands except share amounts)

	2002	2003
Assets		
Current assets:		
Cash and cash equivalents	$ 5,626	$ 5,986
Accounts receivable, less allowance for doubtful accounts of $922 in 2002 and $1,672 in 2003	58,093	60,449
Inventories	120,443	120,945
Deferred income taxes	6,304	10,188
Prepaid expenses and other current assets	3,200	3,538
Total current assets	193,666	201,106
Property, plant and equipment, net	95,608	97,383
Goodwill, net	262,394	290,562
Other intangible assets, net	180,271	193,969
Other assets	10,201	22,038
Total assets	$ 742,140	$ 805,058
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 2,631	$ 4,143
Accounts payable	22,074	18,320
Accrued compensation	10,463	10,685
Income taxes payable	5,885	10,877
Accrued interest	3,794	279
Other current liabilities	13,127	10,551
Total current liabilities	57,974	54,855
Long-term debt	254,756	260,448
Deferred income taxes	28,446	46,143
Other long-term liabilities	14,025	10,122
Total liabilities	355,201	371,568
Commitments and contingencies		
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; 28,808,105 and 29,140,644, issued in 2002 and 2003, respectively	288	291
Paid-in capital	231,832	237,076
Retained earnings	162,391	194,473
Accumulated other comprehensive income (loss)	(7,153)	2,069
Less 37,500 shares of common stock in treasury, at cost	(419)	(419)
Total shareholders' equity	386,939	433,490
Total liabilities and shareholders' equity	$ 742,140	$ 805,058

See notes to consolidated financial statements.

Consolidated Statements *of* Income

Years Ended December 31, 2001, 2002 and 2003
(In thousands except per share amounts)

	2001	2002	2003
Net sales	$ 428,722	$ 453,062	$ 497,130
Cost of sales	204,374	215,891	237,433
Gross profit	224,348	237,171	259,697
Selling and administrative expense	140,560	139,735	157,453
Research and development expense	14,830	16,087	17,306
Write-off of purchased in-process research and development assets	—	—	7,900
Other expense (income)	—	2,000	(2,917)
	155,390	157,822	179,742
Income from operations	68,958	79,349	79,955
Loss on early extinguishment of debt	—	1,475	8,078
Interest expense	30,824	24,513	18,868
Income before income taxes	38,134	53,361	53,009
Provision for income taxes	13,728	19,210	20,927
Net income	$ 24,406	$ 34,151	$ 32,082
Earnings per share			
Basic	$ 1.02	$ 1.25	$ 1.11
Diluted	1.00	1.23	1.10

See notes to consolidated financial statements.

Consolidated Statements *of* Shareholders' Equity

Years Ended December 31, 2001, 2002 and 2003
(In thousands)

	Common Stock		Paid-in	Retained	Accumulated Other Comprehensive	Treasury	Shareholders'
	Shares	Amount	Capital	Earnings	Income (Loss)	Stock	Equity
Balance at December 31, 2000	23,029	$ 230	$ 127,985	$ 103,834	$ (1,027)	$ (419)	$ 230,603
Common stock issued under employee plans	259	3	1,827				1,830
Tax benefit arising from common stock issued under employee plans			604				604
Common 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
Common stock issued under employee plans	546	5	5,012				5,017
Tax benefit arising from common stock issued under employee plans			1,970				1,970
Common stock issuance	3,000	30	66,093				66,123
Repurchase of common 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
Common stock issued under employee plans	248	2	3,198				3,200
Tax benefit arising from common stock issued under employee plans			390				390
Common stock issued in connection with business acquisitions	85	1	1,656				1,657
Comprehensive income:							
Foreign currency translation adjustments					3,082		
Cash flow hedging (net of income tax expense of $593)					1,054		
Minimum pension liability (net of income tax expense of $2,861)					5,086		
Net income				32,082			
Total comprehensive income							41,304
Balance at December 31, 2003	29,141	$ 291	$ 237,076	$ 194,473	$ 2,069	$ (419)	$ 433,490

See notes to consolidated financial statements.

Consolidated Statements *of* Cash Flows

Years Ended December 31, 2001, 2002 and 2003
(In thousands)

	2001	2002	2003
Cash flows from operating activities:			
Net income	$ 24,406	$ 34,151	$ 32,082
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	9,055	9,203	10,539
Amortization	21,093	13,167	14,315
Deferred income taxes	8,562	10,664	13,715
Income tax benefit of stock option exercises	604	1,970	390
Contributions to pension plans in excess of net pension cost	(2,297)	(1,999)	(11,082)
Write-off of purchased in-process research and development assets	—	—	7,900
Write-off of deferred financing costs	—	1,475	2,181
Increase (decrease) in cash flows from changes in assets and liabilities, net of effects from acquisitions:			
Sale of accounts receivable	40,000	(3,000)	7,000
Accounts receivable	(12,508)	(2,151)	(6,405)
Inventories	(4,235)	(15,213)	(3,411)
Accounts payable	(516)	1,157	(5,105)
Income taxes payable	(281)	4,217	2,188
Accrued compensation	1,950	(1,584)	(338)
Accrued interest	(290)	(1,160)	(3,515)
Other assets/liabilities, net	(8,394)	(5,974)	(2,444)
	52,743	10,772	25,928
Net cash provided by operations	77,149	44,923	58,010
Cash flows from investing activities:			
Payments related to business acquisitions, net of cash acquired	—	(17,375)	(55,079)
Purchases of property, plant and equipment, net	(14,443)	(13,384)	(9,309)
Other investing activities	—	—	(4,085)
Net cash used by investing activities	(14,443)	(30,759)	(68,473)
Cash flows from financing activities:			
Net proceeds from issuance of common stock	—	66,123	—
Net proceeds from common stock issued under employee plans	1,830	5,017	3,200
Repurchase of warrant on common stock	—	(2,000)	—
Redemption of 9.0% Senior Subordinated Notes	—	—	(130,000)
Payments on debt	(76,423)	(183,680)	(22,796)
Proceeds of debt	11,000	105,138	160,000
Payments related to issuance of debt	—	(1,513)	(1,950)
Net cash provided (used) by financing activities	(63,593)	(10,915)	8,454
Effect of exchange rate changes on cash and cash equivalents	(1,181)	975	2,369
Net increase (decrease) in cash and cash equivalents	(2,068)	4,224	360
Cash and cash equivalents at beginning of year	3,470	1,402	5,626
Cash and cash equivalents at end of year	$ 1,402	$ 5,626	$ 5,986
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 31,135	$ 24,453	$ 21,698
Income taxes	2,098	5,478	5,507

Supplemental disclosures of non-cash investing and financing activities:
As more fully described in Note 2, we acquired businesses in 2001 through the exchange of approximately 2.0 million shares of our common stock valued at $30.4 million.
As more fully described in Note 6, 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, during 2003 we issued approximately 85,000 shares of our common stock valued at approximately $1.7 million as part of the consideration for the purchases of several businesses in 2002.

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

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 equipment. Our products are used in a variety of clinical settings, such as operating rooms, surgery centers, physicians' offices and hospitals.

Principles of Consolidation

The consolidated financial statements include the accounts of CONMED Corporation and its controlled subsidiaries. All intercompany accounts and transactions have been eliminated.

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, bankruptcy-remote, 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. On October 23, 2003 the accounts receivable sales agreement was amended and restated on substantially the same terms and conditions with the exception of replacing the commercial paper conduit with a bank. The commercial paper conduit or the bank's (the "purchaser") share of collections on accounts receivable are calculated as defined in the accounts receivable sales agreement, as amended. Effectively, collections on the pool of receivables flow first to the purchaser and then to CRC, but to the extent that the purchaser's share of collections were less than the amount of the 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 purchaser. As of December 31, 2002 and 2003, the undivided percentage ownership interest in receivables sold by CRC to the purchaser aggregated $37.0 million and $44.0 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 purchaser's financing costs to purchase the accounts receivable, were $1.2 million and $0.8 million, in 2002 and 2003, respectively, and are included in interest expense.

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 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 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, as amended, also requires us to obtain a commitment (the "purchaser commitment"), on an annual basis, from the purchaser to fund the purchase of our accounts receivable. The purchaser commitment expires October 21, 2004. In the event we are unable to renew our purchaser commitment, 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 had 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 (60.2% at December 31, 2003) 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 and 2003, we performed impairment tests of goodwill and indefinite-lived intangible assets and evaluated the useful lives of acquired intangibles assets subject to amortization. These tests and evaluations

were performed in accordance with SFAS 142. No impairment losses or adjustments to useful lives have been recognized as a result of these tests. It is our policy to perform our annual impairment tests in the fourth quarter.

Other Long-Lived Assets

We review for impairment of long-lived assets (consisting of intangible assets subject to amortization and property, plant and equipment) 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.

Equity Investments

We have several investments in the common stock of other companies in our industry which are less than 20% of the voting stock of these companies and in which we do not have the ability to exercise significant influence. We have accounted for these investments under the cost method.

Hedging Activity

Our hedging activity consists of an interest rate swap which we have designated as a cash-flow hedge, and which effectively converts $50 million of the $243 million in LIBOR-based floating rate debt under our senior credit agreement into fixed rate debt with a base interest rate of 3.63%. The interest rate swap expires in June 2004 and is included in other current liabilities at a fair value of $0.6 million in our consolidated balance sheet at December 31, 2003.

Fair Value of Financial Instruments

The fair values of cash and cash equivalents, accounts receivable, accounts payable, and long-term debt approximates their carrying amount.

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.
- 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 equipment shipment and we recognize revenue upon the disposable product shipment. The cost of the equipment is amortized over the terms of the commitment agreements.
- 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 customer returns, credits, rebates, discounts and current market conditions.
- 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 based upon analysis of historical data.
- Amounts billed to customers related to shipping and handling are included in net sales. Shipping and handling costs of $8.6 million, $7.5 million and $8.3 million for the years ended 2001, 2002 and 2003, 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 $1.7 million at December 31, 2003 is adequate to provide for any probable losses from accounts receivable.

Earnings Per Share

Basic earnings per share ("basic EPS") is computed based on the weighted average number of common shares outstanding for the period. Diluted earnings per share ("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:

	2001	2002	2003
Shares used in the calculation of basic EPS (weighted average shares outstanding)	24,045	27,337	28,930
Effect of dilutive potential securities	356	490	326
Shares used in the calculation of diluted EPS	24,401	27,827	29,256

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 2.8 million, 0.7 million and 1.3 million at December 31, 2001, 2002 and 2003, 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 No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), 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 2001, 2002 and 2003 was $7.39, $9.32 and $5.81, 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 2001, 2002 and 2003, respectively: Risk-free interest rates of 4.38%, 2.70% and 3.13%; volatility factors of the expected market price of the Company's common stock of 48.04%, 41.10% and 32.08%; 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:

	2001	2002	2003
Net income—as reported	$ 24,406	$ 34,151	$ 32,082
Pro forma stock-based employee compensation expense, net of related income tax effect	(2,845)	(2,156)	(2,383)
Net income—pro forma	$ 21,561	$ 31,995	$ 29,699
EPS—as reported:			
Basic	$ 1.02	$ 1.25	$ 1.11
Diluted	$ 1.00	$ 1.23	$ 1.10
EPS—pro forma:			
Basic	$ .90	$ 1.17	$ 1.03
Diluted	$ .88	$ 1.15	$ 1.02

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of the following:

	Minimum Pension Liability	Cumulative Translation Adjustments	Cash Flow Hedges	Accumulated Other Comprehensive Income (loss)
Balance, December 31, 2002	$ (5,086)	$ (1,159)	$ (908)	$ (7,153)
Foreign currency translation adjustments	—	3,082	—	3,082
Cash flow hedging (net of income taxes)	—	—	1,054	1,054
Minimum pension liability (net of income taxes)	5,086	—	—	5,086
Balance, December 31, 2003	$ —	$ 1,923	$ 146	$ 2,069

Reclassifications

Certain prior year amounts have been reclassified to conform with the presentation used in 2003.

Note 2 — Business Acquisitions

Assets and liabilities of acquired businesses have been accounted for under the purchase method of accounting and recorded at their fair values at the date of acquisition. The excess of the purchase price over the estimated fair values of the net assets acquired has been recorded as goodwill. The results of operations of acquired businesses have been included in the consolidated statements of income as of the date of acquisition.

In 2001 we completed the acquisition of certain assets of Imagyn Medical Technologies, Inc. (the "Imagyn acquisition") related to our Endoscopy product line for $29.9 million in CONMED common stock. Goodwill associated with the Imagyn acquisition totaled approximately $26.7 million and is deductible for income tax purposes. We incurred $1.6 million in acquisition-related charges during 2001 to transition manufacturing of the Imagyn product to our facilities. These charges are included in cost of sales.

In 2002 we completed acquisitions of several businesses related to our Patient Care and Endoscopy product lines, including the December 31, 2002 acquisition of CORE Dynamics, Inc. (the "CORE acquisition"), as well as two businesses engaged in the design, manufacture and installation of integrated operating room systems and equipment. Consideration for acquisitions completed in 2002 aggregated $17.4 million in cash and $1.7 million in CONMED common stock plus the assumption of approximately $3.4 million in liabilities. Under the terms of certain of the acquisition agreements, we agreed to pay additional consideration dependent upon future sales or profitability and the satisfactory execution of a plan to transition and consolidate manufacturing of an acquired business to our facilities. Any future consideration paid will be recorded in goodwill. Goodwill recorded in 2002 totaled approximated $16.2 million and is deductible for income tax purposes.

In 2003 we completed several smaller acquisitions related to our Patient Care and Electrosurgery product lines totaling $6.1 million and recorded additional contingent consideration related to 2002 acquisitions of $2.0 million. Goodwill recorded in 2003 related to these acquisitions totaled $5.9 million and is deductible for income tax purposes. These acquisitions did not have a material effect on our results of operations for the year ended December 31, 2003.

In March 2003 we also completed the acquisition of Bionx Implants, Inc. (the "Bionx acquisition") related to our arthroscopy product line, for $47.0 million in cash plus the assumption of approximately $12.1 million in liabilities. Included in cost of sales in 2003 are $1.3 million in acquisition-related charges, consisting principally of the following: $0.5 million in charges as a result of the step-up to fair value recorded related to the sale of inventory acquired as a result of the Bionx acquisition and the CORE acquisition; $0.5 million in inventory charges as a result of the discontinuation of certain of our arthroscopy product lines in favor of those acquired as a result of the Bionx acquisition; and $0.3 million in other transition-related charges. An additional $3.2 million in acquisition-related costs not related to cost of sales which were incurred during 2003 are included in other expense as discussed in Note 12.

Bionx develops and manufactures self-reinforced resorbable polymer implants including screws, pins and meniscal implants for use in a variety of arthroscopic applications, including sports medicine and fracture fixation. The Bionx product lines complement CONMED's existing arthroscopy product line.

Unaudited pro forma statements of income for the years ended December 31, 2002 and 2003, assuming the Bionx acquisition occurred as of January 1, 2002 are presented below.

	2002	2003
Net sales	$ 471,530	$ 500,812
Net income	31,746	31,492
Basic EPS	1.16	1.09
Diluted EPS	1.14	1.08

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition based on a third-party valuation. Goodwill and identifiable intangible assets associated with the Bionx acquisition are not deductible for income tax purposes.

Cash	$ 517
Other current assets	7,284
Property, plant and equipment	2,459
In-process research and development	7,900
Identifiable intangible assets	15,700
Goodwill	25,222
Total assets acquired	59,082
Current liabilities	(7,647)
Deferred income taxes	(3,898)
Other long-term liabilities	(521)
Total liabilities assumed	(12,066)
Net assets acquired	$ 47,016

Based on the third-party valuation, $7.9 million of the purchase price represents the estimated fair value of projects that, as of the acquisition date had not reached technological feasibility and had no alternative future use. Accordingly, this amount of purchased in-process research and development assets was written-off in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method". No benefit for income taxes has been recorded on the write-off of purchased in-process research and development assets as these costs are not deductible for income tax purposes.

The purchased in-process research and development value relates to next generation arthroscopy products, which have been or are expected to be released between the second quarter of 2003 and fourth quarter of 2004. The acquired projects include enhancements and upgrades to existing device technology, introduction of new device functionality and the development of new materials technology for arthroscopic applications.

The value of the in-process research and development was calculated using a discounted cash flow analysis of the anticipated net cash flow stream associated with the in-process technology of the related product sales. The estimated net cash flows were discounted using a discount rate of 22%, which was based on the weighted-average cost of capital for publicly-traded companies within the medical device industry and adjusted for the stage of completion of each of the in-process research and development projects. The risk and return considerations surrounding the stage of completion were based on costs, man-hours and complexity of the work completed versus to be completed and other risks associated with achieving technological feasibility. In total, these projects were approximately 40% complete as of the acquisition date. The total budgeted costs for the projects were approximately $5.5 million and the remaining costs to complete these projects were approximately $3.3 million as of the acquisition date.

The major risks and uncertainties associated with the timely and successful completion of these projects consist of the ability to confirm the safety and efficacy of the technologies and products based on the data from clinical trials and obtaining the necessary regulatory approvals. In addition, no assurance can be given that the underlying assumptions used to forecast the cash flows or the timely and successful completion of such projects will materialize, as estimated. For these reasons, among others, actual results may vary significantly from the estimated results.

Of the $15.7 million of acquired intangible assets, $0.8 million were assigned to registered trademarks and are not subject to amortization. The remaining $14.9 million of acquired intangible assets have a weighted average useful life of 20 years. The intangible assets that make up that amount include $9.0 million of customer relationships (38 year weighted average useful life), $5.4 million of core technology (12 year weighted average useful life) and $0.5 million of distributor relationships (7 year weighted average useful life).

Note 3 — Inventories

Inventories consist of the following at December 31,:

	2002	2003
Raw materials	$ 44,701	$ 35,352
Work in process	12,869	14,583
Finished goods	62,873	71,010
	$ 120,443	$ 120,945

Note 4 — Property, Plant and Equipment

Property, plant and equipment consist of the following at December 31,:

	2002	2003
Land	$ 4,196	$ 4,200
Building and improvements	70,100	75,224
Machinery and equipment	74,838	83,105
Construction in progress	5,038	3,768
	154,172	166,297
Less: Accumulated depreciation	(58,564)	(68,914)
	$ 95,608	$ 97,383

We lease various manufacturing and office facilities and equipment under operating leases. Rental expense on these operating leases was approximately $2,756, $2,064 and $1,959 for the years ended December 31, 2001, 2002 and 2003, respectively. The aggregate future minimum lease commitments for operating leases at December 31, 2003 are as follows:

Year ending December 31,:

2004	$ 2,127
2005	1,815
2006	1,756
2007	1,727
2008	1,680
Thereafter	2,727

Note 5 — Goodwill and Other Intangible Assets

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

	2002	2003
Balance as of January 1,	$ 251,140	$ 262,394
Goodwill acquired	16,194	31,210
Adjustments to goodwill resulting from business acquisitions finalized	(4,940)	(3,285)
Foreign currency translation	—	243
Balance as of December 31,	$ 262,394	$ 290,562

Other intangible assets consist of the following:

	Dec. 31, 2002		Dec. 31, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	$ 96,712	$ (12,725)	$105,712	$ (15,447)
Patents and other intangible assets	23,674	(13,534)	33,258	(16,498)
Unamortized intangible assets:				
Trademarks and tradenames	86,144	—	86,944	—
	$ 206,530	$ (26,259)	$225,914	$ (31,945)

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 23 years. Customer relationships are being amortized over 38 years. Patents and other intangible assets are being amortized over a weighted average life of 9 years.

Our customer relationship assets were acquired in connection with the 1997 acquisition of Linvatec Corporation and the 2003 Bionx acquisition. These intangible assets represent the value associated with business expected to be generated from existing customers as of the acquisition date. The value of these assets was determined by measuring the present value of the projected future earnings attributable to these assets. Additionally, while the useful life of these customer relationship assets 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", customer relationships evidenced by customer purchase orders are contractual in nature and therefore continue to be recognized separate from goodwill and are amortized over their 38 year life.

The trademarks and tradenames intangible asset was recognized in conjunction with the 1997 acquisition of Linvatec Corporation and the 2003 Bionx acquisition. We continue to market products under the acquired trademarks and tradenames of "Linvatec", "Hall", "Shutt", "Envision" and "Bionx". We continue 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. Therefore, in accordance with SFAS 142, our trademarks and tradenames intangible asset is not amortized.

The amortization expense related to intangible assets for the year ending December 31, 2003 and the estimated amortization expense for each of the five succeeding years is as follows:

2003	$ 5,686
2004	5,721
2005	4,816
2006	4,248
2007	4,236
2008	4,236

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, 2001, 2002 and 2003:

	2001	2002	2003
Net income—as reported	$ 24,406	$ 34,151	$ 32,082
Adjustments (net of income taxes)			
Add back: Goodwill amortization	4,120	—	—
Add back: Trademarks and trade names amortization	1,532	—	—
Net income—adjusted	$ 30,058	$ 34,151	$ 32,082
Basic EPS			
Net income—as reported	$ 1.02	$ 1.25	$ 1.11
Adjustments (net of income taxes)			
Add back: Goodwill amortization	.17	—	—
Add back: Trademarks and trade names amortization	.06	—	—
Net income—adjusted	$ 1.25	$ 1.25	$ 1.11
Diluted EPS			
Net income—as reported	$ 1.00	$ 1.23	$ 1.10
Adjustments (net of income taxes)			
Add back: Goodwill amortization	.17	—	—
Add back: Trademarks and trade names amortization	.06	—	—
Net income—adjusted	$ 1.23	$ 1.23	$ 1.10

Note 6 — Long Term Debt

Long term debt consists of the following at December 31,:

	2002	2003
Revolving line of credit	$ 5,000	$ —
Term loan borrowings on senior credit facility	100,000	243,000
9.0% senior subordinated notes	130,000	—
Mortgage notes	22,387	21,591
Total long term debt	257,387	264,591
Less: current portion	2,631	4,143
	$ 254,756	$ 260,448

We entered into a $200 million senior credit agreement (the "senior credit agreement") during the year ended December 31, 2002. Deferred financing costs of $1.5 million related to the approximately three years remaining on the former senior credit agreement were written off as an extraordinary charge in 2002 but have been reclassified to ordinary income on our consolidated statement of income as a result of our 2003 adoption of Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections".

At December 31, 2002, the senior credit agreement consisted of a $100 million revolving credit facility and a $100 million term loan. During the year ended December 31, 2003 we amended the senior credit agreement, expanding the existing term loan facility under the senior credit agreement by $160.0 million (the "expanded term loan facility"). The proceeds of the expanded term loan facility were used to reduce borrowings outstanding on the revolving credit facility, to fund the redemption of $130.0 million in outstanding 9% senior subordinated notes (the "Notes"), primarily in June 2003, as well as related accrued interest, and the 4.5% call premium on the Notes. Proceeds of the expanded term loan facility were also used to fund payment of bank and legal fees associated with amending the senior credit agreement. In connection with

the purchase of the Notes, we wrote off $5.9 million in 4.5% call premium and $2.2 million in unamortized deferred financing costs as a loss on early extinguishment of debt.

The balance outstanding on the expanded term loan facility at December 31, 2003 was $243.0 million. The expanded term loan facility extends for approximately 6 years, with scheduled principal payments of $2.6 million annually through December 2007 increasing to $71.0 million in 2008 and the remaining balance outstanding due in December 2009. We may be required, under certain circumstances, to make additional principal payments based on excess cash flow as defined in the amended senior credit agreement. No such payments were required for the years ended December 31, 2002 and 2003. There were no borrowings outstanding on the revolving credit facility under the amended senior credit agreement as of December 31, 2003. Interest rates on the new term facility are LIBOR plus 2.25% (3.41% at December 31, 2003). Interest rates on the revolving credit facility are LIBOR plus 2.50% (3.66% at December 31, 2003).

The amended senior credit agreement is collateralized by substantially all of our personal property and assets, except for our accounts receivable and related rights which have been sold in connection with our accounts receivable sales agreement. The amended 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 amended 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.

We used term loans to purchase the property in Largo, Florida utilized by our Linvatec subsidiary. The debt assumed in 2001 in connection with the purchase consists of a note bearing interest at 7.50% per annum with semiannual payments of principal and interest through June 2009 (the "Class A note"); and a note bearing interest at 8.25% per annum compounded semiannually through June 2009, after which semiannual 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 aggregated $12.3 million, $6.2 million and $4.2 million, respectively, at the date of acquisition. The principal balances outstanding on the Class A note, Class C note and Seller note aggregate $9.6 million, $7.5 million and $3.8 million, respectively, at December 31, 2003. These loans are collateralized by our Largo, Florida property.

As discussed in Note 1, we use an interest rate swap to hedge a portion of our long-term debt. The interest rate swap, which we have designated as a cash-flow hedge, 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 3.63%. The interest rate swap expires in June 2004.

The scheduled maturities of long-term debt outstanding at December 31, 2003 are as follows:

2004	$ 4,143
2005	4,330
2006	4,532
2007	4,753
2008	73,418
Thereafter	173,415

Note 7 — Income Taxes

The provision for income taxes for the years ended December 31, 2001, 2002 and 2003 consists of the following:

	2001	2002	2003
Current tax expense:			
Federal	$ 3,565	$ 7,251	$ 5,486
State	400	540	665
Foreign	1,201	755	1,061
	5,166	8,546	7,212
Deferred income tax expense	8,562	10,664	13,715
Provision for income taxes	$ 13,728	$ 19,210	$ 20,927

A reconciliation between income taxes computed at the statutory federal rate and the provision for income taxes for the years ended December 31, 2001, 2002 and 2003 follows:

	2001	2002	2003
Tax provision at statutory rate based on income before income taxes	$ 13,347	$ 18,676	$ 18,553
Extraterritorial income exclusion	(894)	(949)	(1,252)
State income taxes	270	351	476
Nondeductible intangible amortization	320	90	90
Nondeductible write-off of purchased in-process research and development assets	—	—	2,765
Other nondeductible permanent differences	220	215	268
Other, net	465	827	27
	$ 13,728	$ 19,210	$ 20,927

The tax effects of the significant temporary differences which comprise the deferred tax assets and liabilities at December 31, 2002 and 2003 are as follows:

	2002	2003
Assets:		
Inventory	$ 2,106	$ 8,948
Net operating losses of acquired subsidiaries	2,986	11,025
Deferred compensation	1,142	1,361
Accounts receivable	94	262
Employee benefits	491	—
Additional minimum pension liability	2,861	—
Interest rate swap	510	—
Other	859	2,390
Valuation allowance	—	(8,462)
	11,049	15,524
Liabilities:		
Goodwill and intangible assets	28,633	43,695
Depreciation	4,558	5,721
Employee benefits	—	1,980
Interest rate swap	—	83
	33,191	51,479
Net liability	$ (22,142)	$ (35,955)

The net operating loss carryforwards of acquired subsidiaries expire at various dates through 2023. We have established a valuation allowance to reflect the uncertainty of realizing the benefits of certain net operating loss carryforwards recognized in connection with the Bionx acquisition.

Note 8 — Shareholders' Equity

The shareholders have authorized 500,000 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, 2002 and 2003, 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 5.7 million shares of common stock for issuance to employees and directors under three stock option plans (the "Plans") of which approximately 263,000 shares remain available for grant at December 31, 2003. 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 Options	Weighted-Average Exercise Price
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
Granted	669	17.44
Forfeited	(84)	19.49
Exercised	(181)	11.84
Outstanding at December 31, 2003	3,994	$ 17.55
Exercisable:		
December 31, 2001	1,954	$ 13.59
December 31, 2002	1,875	15.55
December 31, 2003	2,590	17.19

Range of Exercise Prices	Stock Options Outstanding at Dec. 31 2003	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Stock Options Exercisable at Dec. 31 2003	Weighted Average Exercise Price
Less than $10	222	5.8	$ 8.97	190	$ 8.94
$10 to $15	833	6.0	13.89	648	13.84
$15 to $17.50	978	5.3	16.23	761	16.33
$17.50 to $20	1,034	7.7	18.64	378	19.16
$20 to $22.50	579	6.5	21.35	340	20.92
$22.50 to $26	348	8.1	25.89	273	25.89

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 67,000 shares of common stock under the Employee Plan. 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 conducts its business through four principal operating units, CONMED Patient Care, CONMED Endoscopy, CONMED Electrosurgery and Linvatec Corporation. In accordance with Statement of Financial Accounting Standards No. 131 "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"), our chief operating decision-maker has been identified as the President and Chief Operating Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire company. All four material operating units qualify for aggregation under SFAS 131 due to their identical customer base and similarities in economic characteristics, nature of products and services, procurement, manufacturing and distribution processes. Based upon the aggregation criteria for segment reporting, we have aggregated our operating units into a single segment comprised of medical instruments and systems used in surgical and other medical procedures.

The following is net sales information by product line:

	2001	2002	2003
Arthroscopy	$ 155,650	$ 161,876	$ 177,468
Powered Surgical Instruments	114,375	114,302	122,031
Electrosurgery	66,875	69,674	77,337
Patient Care	69,067	69,753	69,937
Endoscopy	22,755	36,801	45,764
Integrated Operating Room Systems	—	656	4,593
Total	$ 428,722	$ 453,062	$ 497,130

The following is net sales information for geographic areas:

	2001	2002	2003
United States	$ 306,306	$ 320,312	$ 333,473
Canada	16,662	15,980	24,620
United Kingdom	15,382	18,625	19,883
Japan	18,234	18,820	18,265
All other countries	72,138	79,325	100,889
Total	$ 428,722	$ 453,062	$ 497,130

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, 2002 and 2003.

Note 10 — Employee Benefit Plans

We sponsor an employee savings plan ("401(k)") and three defined benefit pension plans (the "pension plans") covering substantially all our employees. The three defined benefit pension plans were merged and overall benefit levels reduced effective January 1, 2004.

Total employer contributions to the 401(k) plan were $1.7 million, $2.0 million and $2.2 million in the years ended December 31, 2001, 2002 and 2003, respectively.

We use a December 31, measurement date for our pension plans. Unrecognized gains and losses are amortized on a straight-line basis over the average remaining service period of active participants. The following table provides a reconciliation of the projected benefit obligation, plan assets and funded status of the pension plans at December 31,:

	2002	2003
Accumulated Benefit Obligation	$ 27,645	$ 32,044
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 29,748	$ 33,639
Service cost	3,988	4,167
Interest cost	2,002	2,419
Actuarial loss	1,178	6,794
Benefits paid	(3,277)	(8,141)
Projected benefit obligation at end of year	$ 33,639	$ 38,878
Change in plan assets		
Fair value of plan assets at beginning of year	$ 16,963	$ 18,169
Actual gain (loss) on plan assets	(2,261)	4,075
Employer contribution	6,744	19,529
Benefits paid	(3,277)	(8,141)
Fair value of plan assets at end of year	$ 18,169	$ 33,632
Change in funded status		
Funded status	$ 15,470	$ 5,246
Unrecognized net actuarial loss	(13,760)	(14,634)
Unrecognized transition liability	(52)	(48)
Unrecognized prior service cost	(129)	(118)
Additional minimum pension liability	7,947	—
Accrued (prepaid) pension cost	$ 9,476	$ (9,554)

Amounts recognized in the consolidated balance sheets consist of the following at December 31,:

	2002	2003
Accrued pension liability	$ 9,476	$ —
Prepaid pension asset	—	(9,554)
Accumulated other comprehensive income (loss)	(7,947)	—
Net amount recognized	$ 1,529	$ (9,554)

The following actuarial assumptions were used to determine our accumulated and projected benefit obligations as of December 31,:

	2002	2003
Discount rate	6.75%	6.25%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%

Net periodic pension cost for the years ended December 31, consist of the following:

	2001	2002	2003
Service cost—benefits earned during the period	$ 3,622	$ 3,988	$ 4,167
Interest cost on projected benefit obligation	1,785	2,002	2,419
Expected return on plan assets	(1,211)	(1,595)	(1,728)
Net amortization and deferral	166	350	750
Settlement loss	—	—	2,839
Net periodic pension cost	$ 4,362	$ 4,745	$ 8,447

During the years ended December 31, 2001 and 2002, we recognized comprehensive losses of $1.1 million and $4.0 million, respectively, net of income taxes, as a result of the changes in the additional minimum pension liability required to be recognized. During the year ended December 31, 2003, we recognized comprehensive income of $5.1 million, net of income taxes, as a result of the change in the additional minimum pension liability required to be recognized.

The following actuarial assumptions were used to determine our net periodic pension benefit cost for the years ended December 31,:

	2001	2002	2003
Discount rate	7.50%	7.00%	6.75%
Expected return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	4.50%	3.00%	3.00%

In determining the expected return on pension plan assets, we consider the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. In addition, we consult with financial and investment management professionals in developing appropriate targeted rates of return.

Asset management objectives include maintaining an adequate level of diversification to reduce interest rate and market risk and providing adequate liquidity to meet immediate and future benefit payment requirements.

The allocation of pension plan assets by category is as follows at December 31,:

	Percentage of Pension Plan Assets		Target Allocation
	2002	2003	2004
Equity securities	56%	41%	60%
Debt securities	28	49	36
Other	16	10	4
Total	100%	100%	100%

As of December 31, 2003, the Plan held 28,000 shares of our common stock, which had a fair value of $0.7 million. We believe that our long-term asset allocation on average will approximate the targeted allocation. We regularly review our actual asset allocation and periodically rebalance the pension plan's investments to our targeted allocation when deemed appropriate.

Our 2004 pension plan funding is not expected to exceed $5.7 million.

Note 11 — Legal Matters

From time to time, we are a defendant in certain lawsuits alleging product liability, patent infringement, or other claims incurred in the ordinary course of business. These claims are generally covered by various insurance policies,

subject to certain deductible amounts and maximum policy limits. When there is no insurance coverage, as would typically be the case primarily in lawsuits alleging patent infringement, we establish sufficient reserves to cover probable losses associated with such claims. We do not expect that the resolution of any pending claims will have a material adverse effect on our financial condition or results of operations. There can be no assurance, however, that future claims, the costs associated with claims, especially claims not covered by insurance, will not have a material adverse effect on our future performance.

Manufacturers of medical products may face exposure to significant product liability claims. To date, we have not experienced any material product liability claims, but any such claims arising in the future could have a material adverse effect on our business or results of operations. We currently maintain commercial product liability insurance of $25 million per incident and $25 million in the aggregate annually, which we, based on our experience, believe is adequate. This coverage is on a claims-made basis. There can be no assurance that claims will not exceed insurance coverage or that such insurance will be available in the future at a reasonable cost to us.

Our operations are subject to a number of environmental laws and regulations governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater remediation and employee health and safety. In some jurisdictions environmental requirements may be expected to become more stringent in the future. In the United States certain environmental laws can impose liability for the entire cost of site restoration upon each of the parties that may have contributed to conditions at the site regardless of fault or the lawfulness of the party's activities. While we do not believe that the present costs of environmental compliance and remediation are material, there can be no assurance that future compliance or remedial obligations could not have a material adverse effect on our financial condition or results of operations.

In November 2003, we commenced litigation against Johnson & Johnson and several of its subsidiaries, including Ethicon, Inc. for violation of federal and state antitrust laws. The lawsuit claims that Johnson & Johnson engaged in illegal and anticompetitive conduct with respect to sales of product used in endoscopic surgery, resulting in higher prices to consumers and the exclusion of competition. We have sought relief which includes an injunction restraining Johnson & Johnson from continuing its anticompetitive practice as well as receiving the maximum amount of damages allowed by law. While we believe that our claims are well-grounded in fact and law, there can be no assurance that we will be successful in our claim.

Note 12 — Other Expense (Income)

Other expense (income) for the year ended December 31, consists of the following:

	2002	2003
Gain on settlement of a contractual dispute	$ —	$ (9,000)
Pension settlement loss	—	2,839
Acquisition-related costs	—	3,244
Loss on settlement of a patent dispute	2,000	—
Other expense (income)	$ 2,000	$ (2,917)

In March 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. We recorded a charge to income in the fourth quarter of 2002 to recognize a loss of $1.5 million plus legal costs of approximately $0.5 million.

During 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 paid us $9.5 million in cash, which was recorded as a gain on settlement of a contractual dispute, net of $0.5 million in legal costs.

During 2003, we announced a plan to restructure our arthroscopy and powered surgical instrument sales force by increasing our domestic sales force from 180 to 230 sales representatives. The increase is part of our integration plan for the Bionx acquisition discussed in Note 2. As part of the sales force restructuring, we converted 90 direct employee sales representatives into nine independent sales agent groups. As a result of this restructuring, we now have 18 exclusive independent sales agent groups managing 230 arthroscopy and powered surgical instrument sales representatives. As a result of the termination of the 90 direct employee sales representatives, we recorded a charge to other expense of $2.8 million related to settlement losses of pension obligations, pursuant to Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits".

During 2003, we incurred acquisition-related charges of approximately $4.5 million, of which $1.3 million has been recorded in cost of sales as discussed in Note 2 and $3.2 million in acquisition and transition-related costs have been recorded in other expense. The $3.2 million in costs recorded to other expense are acquisition and transition-related, consisting of $1.3 million in retention bonuses, travel, severance and other costs related to acquisitions completed in the fourth quarter of 2002, and $1.9 million of such costs related to the Bionx acquisition completed in the first quarter of 2003.

Note 13 — Guarantees

We provide warranties on certain of our products at the time of sale. The standard warranty on our capital and reusable equipment is for a period of one year. 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, are as follows:

	2002	2003
Balance as of January 1,	$ 2,909	$ 3,213
Provision for warranties	4,287	4,209
Claims made	(3,983)	(3,934)
Warranties acquired	—	100
Balance as of December 31,	$ 3,213	$ 3,588

Note 14 — New Accounting Pronouncements

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. FIN 45 has not had any material accounting impact on our financial condition or results of operations.

In January 2003, FIN No. 46, "Consolidation of Variable Interest Entities" was issued and subsequently revised in December 2003. The guidelines of the interpretation are applicable for us in our first quarter 2004 financial statements. 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. Adoption of this pronouncement is not expected to have any material impact on our financial condition or results of operations during 2004.

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 adopted this pronouncement during 2003. As a result we have reclassified the extraordinary loss recognized in the third quarter of 2002 related to the refinancing of debt to ordinary income.

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 an 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 has not had an impact on our financial condition or results of operations during 2003.

In April 2003, SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" was issued. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 149 became applicable for us in our third quarter 2003. Adoption of this pronouncement has not had any material impact on our financial condition or results of operations during 2003.

In May 2003, SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" was issued. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability, many of which were previously classified as equity. SFAS No. 150 became applicable for us in our third quarter 2003. Adoption of this pronouncement has not had any material impact on our financial condition or results of operations during 2003.

In December 2003, SFAS No. 132R "Employers' Disclosures about Pensions and Other Postretirement Benefits" was issued. SFAS No. 132R amends the disclosure requirements of SFAS No. 132 to require additional disclosures about assets, obligations, cash flow and net periodic benefit cost. The statement is effective in 2003 and the related disclosures have been included in Note 10 to the consolidated financial statements.

Note 15 — Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data for 2002 and 2003 are as follows:

	Three Months Ended			
	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
Net income	9,076	8,950	8,223	7,902
EPS				
Basic	$ .36	$ .34	$ .29	$ .28
Diluted	.35	.33	.28	.27
	March	**June**	**September**	**December**
2003				
Net sales	$ 118,034	$ 124,540	$ 120,747	$ 133,809
Gross profit	61,656	65,131	63,231	69,679
Net income	6,668	2,763	9,706	12,945
EPS				
Basic	$ .23	$ .10	$ .34	$ .45
Diluted	.23	.09	.33	.44

Unusual Items Included In Selected Quarterly Financial Data:

2002

September

In the third quarter of 2002, we recorded a charge of $1.5 million to recognize a loss on the early extinguishment of debt—see Note 6.

December

In the fourth quarter of 2002, we recorded a charge of $2.0 million related to the settlement of a patent dispute—see Note 12.

2003

March

In the first quarter of 2003, we recorded a charge of $7.9 million related to the write-off of purchased in-process research and development. The first quarter effective tax rate was increased from 36.0% to 55.1% to reflect the nondeductibility of the $7.9 million charge.

In the first quarter of 2003, we recorded a gain of $9.0 million on the settlement of a contractual dispute and acquisition-related charges of $1.3 million to other expense (income)—see Note 12.

June

In the second quarter of 2003, we recorded pension settlement losses of $2.1 million and acquisition-related charges of $1.2 million to other expense (income)—see Note 12.

In the second quarter of 2003 we recorded losses on the early extinguishment of debt of $7.9 million—see Note 6.

September

In the third quarter of 2003, we recorded pension settlement losses of $0.7 million to other expense (income)—see Note 12.

December

In the fourth quarter of 2003, we reduced the effective tax rate for the year from 41.4% to 39.5% thereby decreasing income tax expense by $1.0 million.

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

Jo Ann Golden, CPA
Partner, Dermody, Burke and Browne, CPA, PLLC

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

William D. Matthews, Esq.
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

Executive *and* Senior Officers

Eugene R. Corasanti
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

Luke A. Pomilio
Vice President – Corporate Controller

Robert D. Shallish, Jr.
Vice President – Finance, CFO

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:

Investor Relations Department
CONMED Corporation
525 French Road
Utica, NY 13502

Transfer Agent/Registrar
Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016

Stock
The Nasdaq Stock Market®
Stock Symbol: CNMD

Independent Accountants
PricewaterhouseCoopers LLP
One Lincoln Center
Syracuse, NY 13202

General Counsel
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525 French Road
Utica, NY 13502

Special Counsel
Sullivan & Cromwell
125 Broad Street
New York, NY 10004

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Operating Subsidiaries
CONMED Electrosurgery
CONMED Integrated Systems, Inc.
CONMED Integrated Systems Canada ULC
CONMED Receivables Corporation
Envision Medical Corporation
Linvatec Corporation
Linvatec Austria GmbH
Linvatec Australia Pty. Ltd.
Linvatec Biomaterials, Inc.
Linvatec Biomaterials, Ltd.
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Linvatec France S.A.R.L.
Linvatec Korea Ltd.
Linvatec Nederland B.V.
Linvatec Spain, S.L.
Linvatec U.K. Ltd.

Designed by Romanelli

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.

CONMED®
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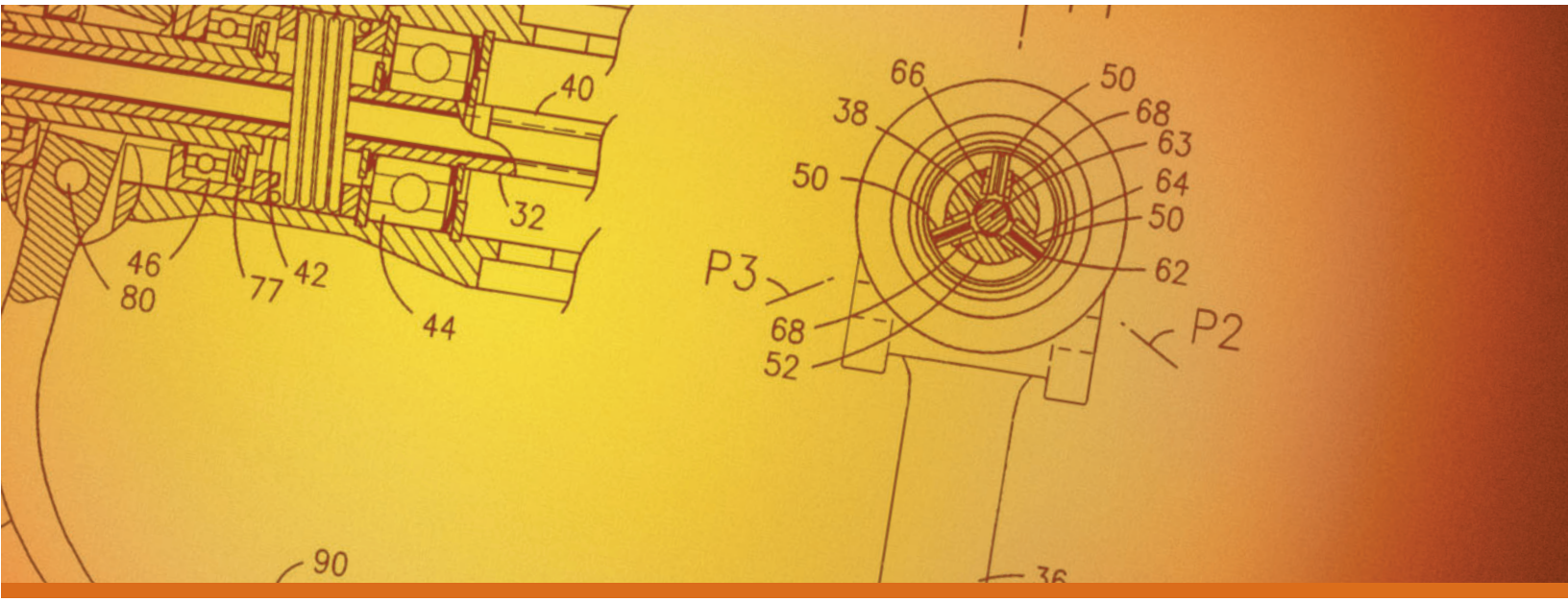
525 FRENCH ROAD, UTICA, NY 13502 USA



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