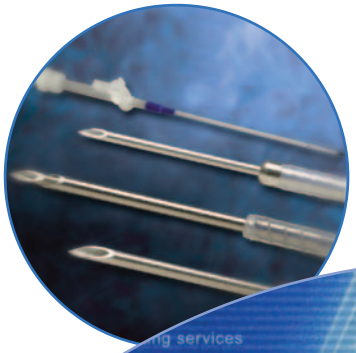
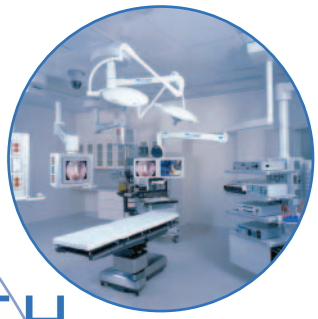
CONMED CORPORATION
2004 ANNUAL REPORT





GROWTH

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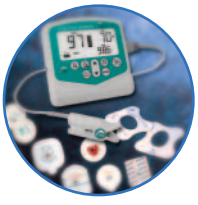
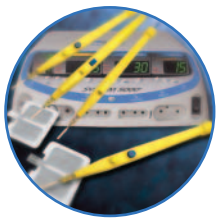
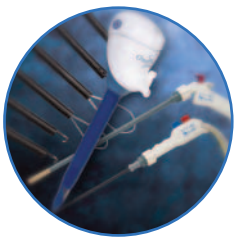
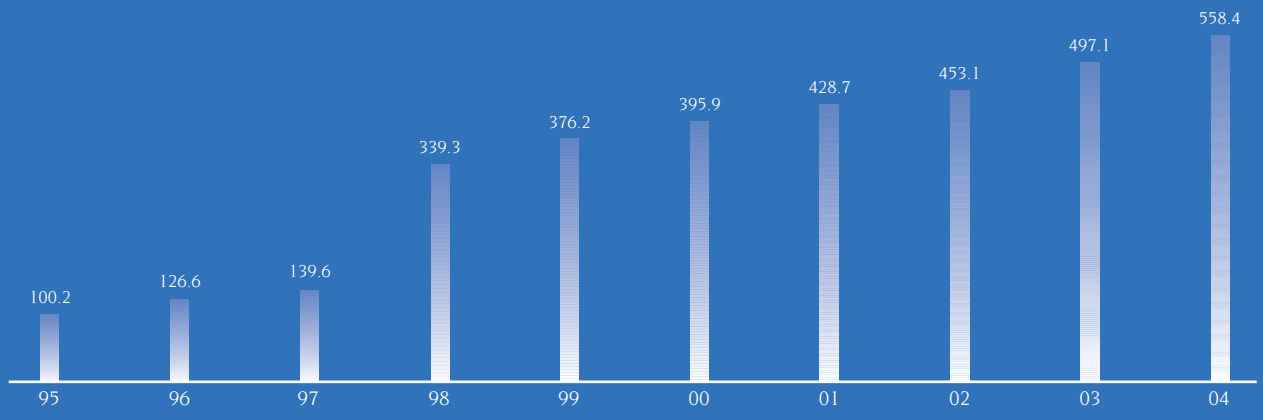




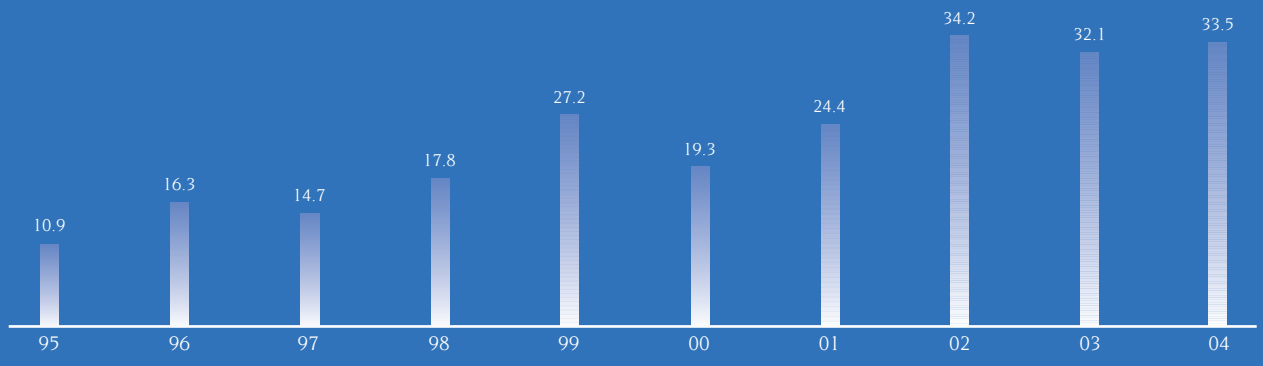


FINANCIAL HIGHLIGHTS

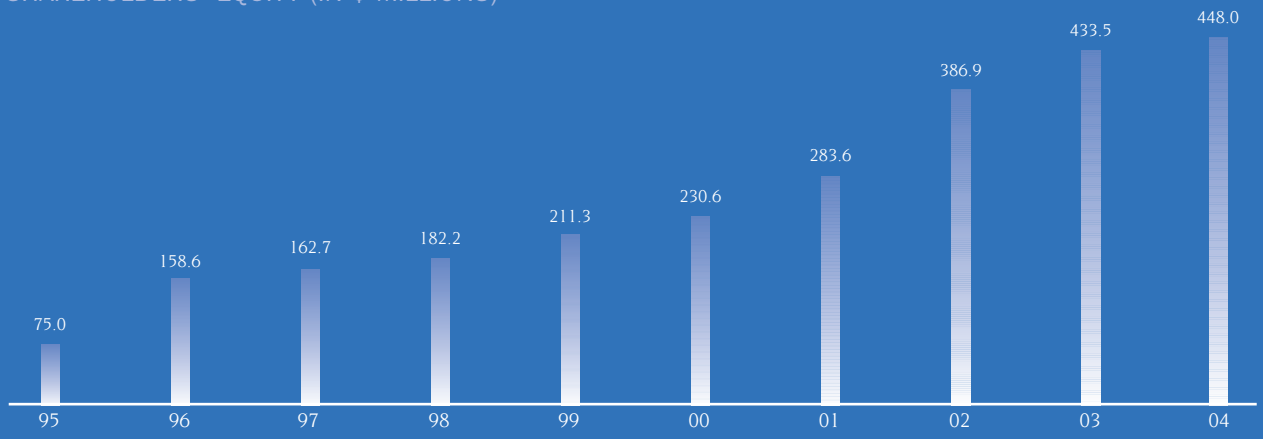
NET SALES (IN $ MILLIONS)



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

Joseph J. Corasanti, Eugene R. Corasanti

We are pleased to report that CONMED Corporation experienced another strong year in 2004. Revenues surpassed the $500 million mark for the first time. Internal growth was spread across all of our business units. In keeping with our strategy of acquiring accretive and strategic product lines and businesses, we added a new division, CONMED Endoscopic Technologies ("CET") with respected brand recognition in its field. We increased cash flow, and improved our capital structure. In all of these areas, we passed important milestones in our Company's history.

Revenues

Revenues reached record levels at $558.4 million, an increase of over 12% from the prior year's record revenues of $497.1 million. This growth was seen in all areas of our businesses. We experienced overall growth in each business unit, in many cases at rates nearly two times the rates from 2003 rates:

2004 Revenues (millions) and Rates of Growth

	Sales	Growth Percent
Arthroscopy	$ 204.9	12.6
Powered Surgical Instruments	128.6	5.4
Electrosurgery	85.9	11.1
Patient Care	75.9	8.4
EndoSurgery	47.4	3.5
Endoscopic Technologies (for 3 months only)	15.7	—
Total	$ 558.4	12.3%

CET: Growth in the Number of CONMED Divisions

Our growth was more than just an increase in sales of products. Our growth also came in the form of CONMED Endoscopic Technologies ("CET"), our newest division. Acquired from C.R. Bard as of September 30, 2004, CET serves the market for gastroenterologists and pulmonologists providing minimally invasive single-use products for the diagnosis and treatment of conditions of the digestive tract as well as the lungs. This is a growing market with the aging of the baby boom generation.

Financial Performance

By almost any measure of financial performance, 2004 was a record year for CONMED. We experienced record sales for the 17th consecutive year, with revenues growing to $558.4 million, an increase of $61.1 million from the $497.1 million in sales produced during 2003.

Our increases on the top line did not come at the expense of the bottom line, an area we never stop focusing on. We generated record earnings when measured without unusual charges relating to acquisitions, debt refinancings and a product line termination. Non-GAAP diluted earnings per share increased 11.3% to $1.68 in 2004 compared to $1.51 per share in 2003 on a 2.9% increase in diluted shares outstanding. 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. While GAAP net income for 2004 was $33.5 million—an amount which translates to diluted earnings per share of $1.11, compared to $32.1 million of net income in 2003 with diluted earnings per share of $1.10—these figures do not provide the full story of increasing cash flows. During 2003, we generated $58.4 million in cash from operations. In 2004, cash flow from operations, an important measure of financial strength, increased to $74.8 million.

Recognizing that interest rates are at historically low levels, we took advantage of favorable market conditions to issue convertible notes, the principal effect of which is to lock in fixed interest rates at 2.5% for $150 million of debt. This serves two purposes. First, it reduces our interest costs for $150 million of debt, lowering the interest rate expense from a variable rate of approximately 4.5% to 2.5%, resulting in significant interest savings. Secondly, this also offers some measure of protection from the possibility that interest rates will rise in the coming months and years, a probability that seems increasingly likely according to most economists.

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. Our orthopedics business posted a 9.7% increase, with increases in Arthroscopy, Powered Surgical Instruments and Imaging. Electrosurgery, one of CONMED's first product lines, generated 11.1% increases, its second straight year of double-digit increases. Likewise, the Patient Care line, CONMED's other legacy product line, delivered accelerated growth as a result of adding new products to the line. EndoSurgery, likewise, posted increases.

By the end of the year, our debt to capitalization ratio was 40%, well within our targeted range of 35%-45%.

New Technology and Products

We continued our string of new product offerings in 2004. In Powered Surgical Instruments, we introduced the PowerPro® pneumatic line of powered surgical handpieces. This complements our full line of PowerPro® large bone power products by expanding the power source for the PowerPro® line to include pneumatic power in addition to our battery and electric offerings.

We continued to lead with technology in Imaging. While our second generation 3CCD Autoclavable Camera Head is still a leader in the field of autoclavable cameras, our new enhanced definition ("ED") camera system fueled 36% growth for the year in Imaging. Precise video images are required for minimally invasive surgery in joints (arthroscopy) as well as in the abdomen (laparoscopy). While we have always been a leader in arthroscopy imaging, we increasingly are participating in the larger market of laparoscopy imaging thanks to the clarity and precision of our ED cameras.

Pulse oximetry monitoring is the newest product to be added to our Patient Care line. Pulse oximetry measures oxygen levels within a patient's blood and is an important vital sign measurement used in operating rooms, emergency rooms and many clinical care areas of hospitals. Early in 2004 we licensed this product from a supplier and have found, as we had expected, that the price/value proposition of our offering compares favorably to the competition. As a result, we have seen our sales grow steadily throughout 2004. We expect further sales increases for this product in 2005.

We are committed to continuing our pace of new product introductions in 2005 and beyond, and believe that this investment in our future will continue to produce solid returns.

Distribution

We continue to improve our distribution. In our orthopedics business, we increased the training for domestic sales representatives handling our products. In our other businesses, we continued the extensive training programs we had started in prior years. As we begin to introduce our new CET sales professionals to the products now available to them on a cross-selling basis, we expect our customers to hear more about CONMED products on a daily basis. We firmly believe that the more physicians truly know our products and the value we deliver, the more they like them.

The increases in domestic sales were not at the expense of our sales efforts outside the United States. International sales continue to increase in absolute and relative terms. Sales outside the United States

reached record levels: $193.6 million for 2004, which represented 34.7% of total revenues, the highest level since the Company's founding.

Robert E. Remmell, Esq.

We note with sadness the passing of Robert Remmell, Director. Bob served on our board from before we became a public company in 1987. With a sharp wit, and as both a lawyer's lawyer as well as a businessman's lawyer, he proved time and time again an uncanny ability to focus on the salient issues facing the Company. Losing his companionship and counsel has brought into sharp relief the importance of taking the larger perspective; that is, we see the importance not only of the goals we accomplish, but also of the road we take to get there.

Outlook

We look forward to the future. Our business model has proven to be solid: growth through servicing customers with market-leading, top-notch products and technologies. We continue to seek acquisitions at sensible prices with products that match well with existing businesses, or product lines similar to the ones we currently offer. Our management team has never been as strong as it is today. We continue to adhere to the strategy that has brought us to where we are today. We are far from finished, and remain confident that our best days still 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]

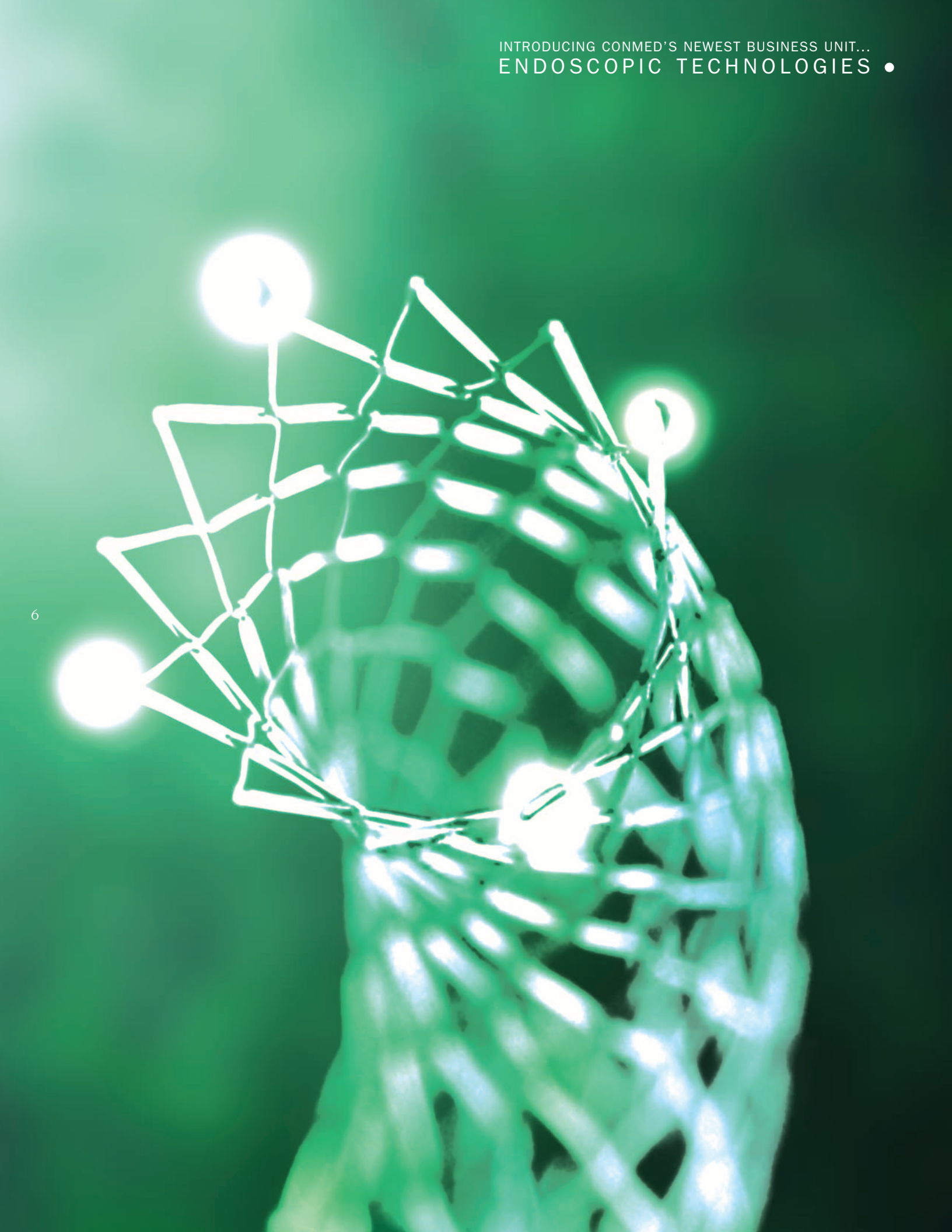
(In thousands except per share amounts)
(Unaudited)

Twelve months ended December 31,	2003	2004
Reported net income	$ 32,082	$ 33,465
Acquisition-related costs included in costs of sales	1,253	4,429
Write-off of purchased in-process research and development assets	7,900	16,400
Gain on settlement of a contractual dispute net of legal costs	(9,000)	—
Pension settlement loss	2,839	—
Termination of product offering	—	2,396
Other acquisition-related costs	3,244	1,547
Total other (income) expense	(2,917)	3,943
Acquisition-related interest expense	—	360
Loss on early extinguishment of debt	8,078	825
Nonrecurring expense before income taxes	14,314	25,957
Provision (benefit) for income taxes on nonrecurring expense	(2,309)	(8,955)
Net income before unusual items	$ 44,087	$ 50,467
Per share data:		
Reported net income		
Basic	$ 1.11	$ 1.13
Diluted	1.10	1.11
Net income before nonrecurring items		
Basic	$ 1.52	$ 1.71
Diluted	1.51	1.68

[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.

INTRODUCING CONMED'S NEWEST BUSINESS UNIT...

ENDOSCOPIC TECHNOLOGIES •



CONMED first addressed the needs of the Gastroenterology market with our RF electrosurgical technology. Our extensive line of electrosurgical generators provided the GI Endoscopist and Surgeon the power of choice when determining what energy sources to use for their hemostasis needs during polypectomy procedures.

Our acquisition of the proprietary argon beam coagulation technology in 1995 allowed us the opportunity to further penetrate the GI market. CONMED's R&D efforts with argon gas proved to offer significantly enhanced clinical outcomes by delivering efficient and rapid hemostasis for diagnostic and therapeutic gastrointestinal procedures.

We continued to push into this market with our addition of the BiCap™ system of products in 2003. This specialty bipolar electrosurgical generator enjoys a tremendous niche position within the GI marketplace and enhanced our brand recognition.

While these products, along with some of our Patient Care offerings, served as our entrée in the GI market, we were not positioned to dedicate a sales force to it—until now.

In October 2004, CONMED acquired the majority of the innovative gastroenterology and pulmonology products formerly sold by C.R. Bard's Endoscopic Technologies division. A significant portion of this transaction was the inclusion of the approximately 50 highly experienced, professional and dedicated sales representatives.

Now known as CONMED Endoscopic Technologies, our new business unit brings with it over fifteen years of concentrated experience in the development of minimally invasive diagnostic and therapeutic products that are used in conjunction with procedures requiring flexible endoscopy. Our primary customers are GI endoscopists, pulmonologists, surgeons and nurses who perform these procedures in both hospital and outpatient clinical settings.

The estimates of the GI market are very attractive and are expected to continue to grow based on global demographics. What is considered to be a $900 million market with approximately 8.4 million procedures performed annually, it remains in many ways in its infancy.

Past growth has been within the diagnostic segment of the market as technology has driven the single use device business. Recent and future growth will come via the specialty therapeutic aspects of the market. CONMED Endoscopic Technologies has a leading position in this space with its differentiated specialty product approach. Our brand is recognized as being an innovative developer of new products that improve a physician's practice and procedural cost efficiencies while enhancing clinical outcomes for the patient.

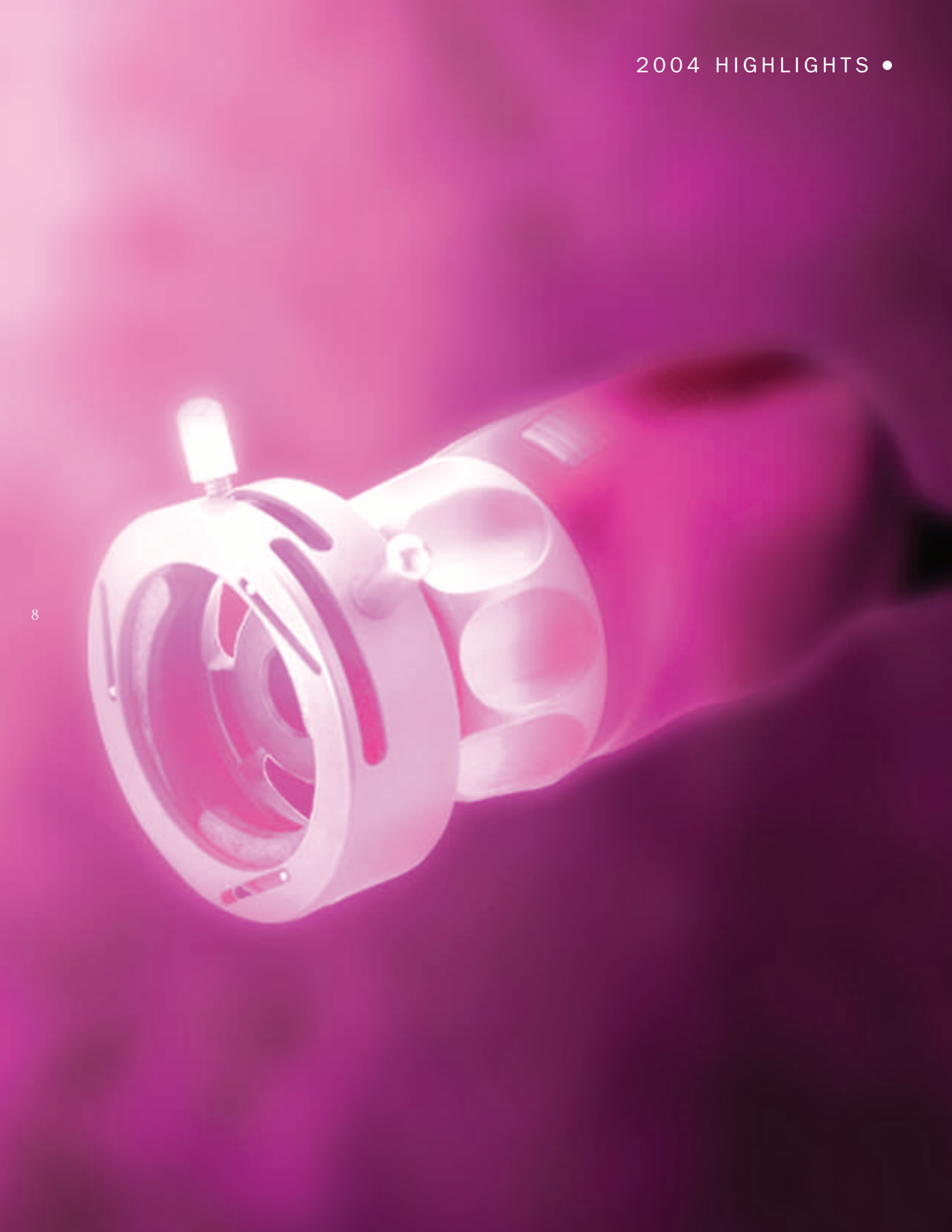
An already extensive breadth of product offerings of biliary devices such as state-of-the-art metal stents for stricture management, biopsy forceps, polypectomy snares and stone removal balloons are all dramatically enhanced by the synergistic introduction of CONMED's electrosurgical and argon beam coagulation expertise and product offerings.

CONMED Endoscopic Technologies stands well positioned to match its strong position in diagnostic devices with a continuing stream of technologically advanced therapeutic products including energy based solutions for the rapidly growing GI market through its dedicated and professional sales force.

"I have had the unique opportunity to watch CONMED grow from a small medical device company with a few quality products to its current status with a very broad and impressive product offering. As a practicing OB/GYN surgeon, I use products from just about every one of their businesses during my surgical procedures. Whether it's their ClearSite wound care dressing, Universal Plus Suction/Irrigation system, laparoscopic electrodes, electrosurgical generators or bipolar Kleppinger forceps, CONMED's products have always delivered quality results and have enhanced my ability to produce positive clinical outcomes for patients."

Prabhat Ahluwalia, MD

- Director, Gynecological Minimal Invasive Surgery, St. Elizabeth Medical Center, Utica, NY
- Preceptor, Gynecologic Endoscopic Fellowship, American Association of Gynecologic Laparoscopists
- Adjunct Assistant Professor, Albany Medical College, Dept. of OB/GYN
- Fellow, American College of Obstetrics & Gynecology
- Inventor, Patent Holder for VCARE®—Vaginal Cervical Ahluwalia Retractor and Elevator



Pulse Oximetry

CONMED kicked off 2004 with the announcement of an agreement with Dolphin Medical, Inc. to distribute a full line of pulse oximetry products. Pulse oximeters are used to continuously monitor a patient's arterial blood oxygen saturation and pulse rate in critical care situations. Our sales expectations were exceeded due to the quality of this product line and the tremendous efforts of our Patient Care sales force.

4th Generation Autoclavable Video Systems

As a recognized leader in Autoclavable Video Systems, our CONMED Linvatec business unit introduced our 4th generation of these state-of-the-art products during 2004. This new release was designed to further address the individual and unique needs of the multitude of surgical specialties that share the use of medical video systems in today's modern surgical suites. Our successful results with the introduction of this new enhanced definition video camera system throughout 2004 have allowed CONMED to further establish our brand across these various specialties, thereby opening up opportunities for all of our business units.

Orthopedics

Our broad line of Arthroscopy and Powered Surgical Instrument products enjoyed fine growth during 2004. One of the highlights of this performance was the balanced nature that fueled it. Our new fluid management system called the 10k® Pump has been favorably received by the market and was joined by our release of the PowerPro® Pneumatic System for both large and small bone orthopedic procedures. In addition, the continuing introduction of highly specialized bioabsorbable implants such as suture anchors and interference screws for Sports Medicine knee and shoulder procedures allowed our focused field sales force to enhance their relationships with key arthroscopic surgeons resulting in increased revenues.

Electrosurgery System 5000™

The continued strong performance of our Electrosurgery business unit was evidenced by the growth within our array of single use devices. This particular growth was clearly driven by the presence of our System 5000™ electrosurgical generator. The state-of-the-art technology within this unit continues to penetrate the highly specialized surgical markets with its performance characteristics thereby pulling through our accessories and enhancing our brand.

"I am a sports medicine orthopedic surgeon in academic practice. I have been involved with Concept/Linvatec/ CONMED for over 20 years.

During this period of time, I have been very satisfied with the professional business association.

The company has every product necessary to practice arthroscopic surgery."

Donald Johnson, MD

- *Director Sports Medicine Clinic Carleton University, Ottawa*
- *Assistant Professor of Orthopedic Surgery, University of Ottawa*
- *Chief of the Sports Medicine Service, University of Ottawa*
- *President of the Arthroscopy Association of North America*
- *Attending Staff Surgeon, The Ottawa Hospital*
- *Author, The ACL Made Simple*
- *Secretary, Board of Directors, International Society of Arthroscopy, Knee Surgery, and Orthopedic Sports Medicine*

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 under the symbol "CNMD." At March 9, 2005, there were 1,142 registered holders of our common stock and approximately 10,433 accounts held in "street name."

The following table sets forth quarterly high and low sales prices for the years ended December 31, 2003 and 2004, as reported by the NASDAQ Stock Market.

	2003		2004	
Period	High	Low	High	Low
First Quarter	$ 20.74	$ 13.95	$ 29.54	$ 23.72
Second Quarter	20.83	16.69	30.89	24.00
Third Quarter	22.00	18.21	27.92	20.73
Fourth Quarter	24.30	19.52	30.02	25.47

We did not pay cash dividends on our common stock during 2003 or 2004 and do not currently intend to pay dividends for the foreseeable future. Future decisions as to the payment of dividends will be at the discretion of the Board of Directors, subject to conditions then existing, including our financial requirements and condition and the limitation and payment of cash dividends contained in debt agreements.

Our Board of Directors has authorized a share repurchase program; See Note 8 to the Consolidated Financial Statements for further discussion.

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

(In thousands, except per share data)

Years Ended December 31,	2000	2001	2002	2003	2004
Consolidated Statements of Income[1]:					
Net sales	$ 395,873	$ 428,722	$ 453,062	$ 497,130	$ 558,388
Income from operations	64,464	68,958	79,349	79,955	63,161
Net income[2][3]	19,314	24,406	34,151	32,082	33,465
Earnings per share[4]:					
Basic	$ .84	$ 1.02	$ 1.25	$ 1.11	$ 1.13
Basic adjusted for SFAS 142[3]	1.08	1.25	1.25	1.11	1.13
Diluted	.83	1.00	1.23	1.10	1.11
Diluted adjusted for SFAS 142[3]	1.07	1.23	1.23	1.10	1.11
Weighted average number of common shares in calculating[4]:					
Basic earnings per share	22,967	24,045	27,337	28,930	29,523
Diluted earnings per share	23,271	24,401	27,827	29,256	30,105
Other Financial Data:					
Depreciation and amortization	$ 29,487	$ 30,148	$ 22,370	$ 24,854	$ 26,868
Capital expenditures	14,050	14,443	13,384	9,309	12,419
Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 3,470	$ 1,402	$ 5,626	$ 5,986	$ 4,189
Total assets	679,571	701,608	742,140	805,058	872,825
Long-term debt (including current portion)	378,748	335,929	257,387	264,591	294,522
Total shareholders' equity	230,603	283,634	386,939	433,490	447,983

(1) Results of operations of acquired businesses have been recorded in the financial statements since 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 Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS 142") were adopted relative to the cessation of amortization for goodwill and certain intangible assets. Had we accounted for goodwill and certain intangibles in accordance with SFAS 142 for all periods presented, net income would have been $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 and related notes contained elsewhere in this Annual Report.

Overview of CONMED Corporation

CONMED Corporation ("CONMED," the "Company," "we" or "us") is a worldwide developer, manufacturer and distributor of a broad portfolio of advanced surgical instruments and medical devices with an emphasis on minimally invasive procedures and monitoring. Our products are used by surgeons and physicians in a variety of specialties including orthopedics, general surgery, gynecology, neurosurgery and gastroenterology. We offer surgical products and technologies to our customers through six principal product lines. These product lines and the percentage of consolidated revenues associated with each, are as follows:

	2002	2003	2004
Arthroscopy	36%	37%	37%
Powered Surgical Instruments	25	25	23
Electrosurgery	15	15	15
Patient Care	16	14	14
Endoscopy	8	9	8
Endoscopic Technologies	—	—	3
Consolidated Net Sales	100%	100%	100%

A significant amount of our products are used in surgical procedures with approximately 75% of our revenues derived from the sale of disposable products. We manufacture substantially all of our products in facilities located in the United States. We market our products both domestically and internationally directly to customers and through distributors. International sales approximated 29%, 33% and 35% in 2002, 2003 and 2004, respectively.

Business Environment, Opportunities and Challenges

The aging of the worldwide population along with lifestyle changes, continued cost containment pressures on healthcare systems and the desire of clinicians and administrators to use less invasive (or non-invasive) procedures are important trends which are driving the growth for our surgical and patient care products.

We have historically used strategic business acquisitions and exclusive distribution relationships to diversify our product offerings, increase our market share in certain product lines and realize economies of scale. In 2003, we made important progress in broadening our Arthroscopy product line with the acquisition of Bionx Implants, Inc. (the "Bionx acquisition"—See Note 2 to the Consolidated Financial Statements). In January 2004, we announced an agreement with Dolphin Medical, Inc., a subsidiary of OSI Systems, Inc., under which we became the exclusive North American distributor for a full line of Dolphin® pulse oximetry products. These products are included in our Patient Care product line.

On September 30, 2004 we completed the acquisition of certain products of the Endoscopic Technologies Division of C.R. Bard, Inc. (the "Bard Endoscopic Technologies acquisition"—See Note 2 to the Consolidated Financial Statements). The acquired product line consists of various disposable products used by gastroenterologists to diagnose and treat diseases of the digestive tract. Several of the products are used in conjunction with electrosurgical devices to cause hemostasis following the removal of diseased tissue. It is anticipated that these products will complement our current Electrosurgery product offerings. Manufacturing of the products is currently being conducted in various C.R. Bard facilities under a transition agreement. It is anticipated that future manufacturing will be shifted to our facilities during the third quarter of 2005.

Continued innovation and commercialization of new proprietary products and processes are essential elements of our long-term growth strategy. In February 2005, we unveiled several new products at the American Academy of Orthopedic Surgeons Annual Meeting which will enhance our arthroscopy and powered instrument product offerings. Our reputation as an innovator is exemplified by these recent product introductions, which include an Advantage® Turbo Arthroscopic Shaver System; PINN-ACL® cross pin device; Lightwave™ suction ablator; PowerProMax™ powered instrument handpieces, batteries and attachments; ThRevo™ triple-loaded suture anchor; and SuperRevo®/Bio-Anchor®/Duet™/Impact™ suture anchors pre-threaded with Herculine™.

Our current research initiatives include the development of reflectance technology products. This technology permits non-invasive analysis of blood oxygen levels in clinical situations which previously could not be accomplished using traditional non-invasive techniques ("Pro2®"). We anticipate a 2005 product launch in the United States and Europe.

Additionally, in 2003 we acquired technology for a product referred to as Endotracheal Cardiac Output Monitor ("ECOM"). Our ECOM product offering is expected to replace catheter monitoring of cardiac output with a specially designed endotracheal tube which utilizes proprietary bio-impedance technology. A large portion of the development of this product, as well as future product enhancements, will be conducted in our newly created research subsidiary in Israel. In June 2004, CONMED and our Israeli subsidiary were awarded a $1 million grant from the Israel-U.S. Binational Industrial Research and Development Foundation to assist in product development. We anticipate a 2006 product launch in the United States and Europe.

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

Critical Accounting Estimates

Preparation of our financial statements requires us to make estimates and assumptions which 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

Revenue is recognized when title has been transferred to the customer which is generally at the time of shipment. The following policies apply to our major categories of revenue transactions:

- 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 term of individual commitment agreements.
- Product returns are only accepted at the discretion of the Company and in accordance with our "Returned Goods Policy." Historically the level of product returns has not been significant. We accrue for sales returns, rebates and allowances based upon an analysis of historical customer returns and credits, rebates, discounts and current market conditions.
- The Company's terms of sale to customers generally do not include any obligations to perform future services. Limited warranties are generally provided for capital equipment sales and provisions for warranty are provided at the time of product sale based upon an analysis of historical data.
- Amounts billed to customers related to shipping and handling have been included in net sales. Shipping and handling costs included in selling and administrative expense were $7.5 million, $8.3 million and $9.3 million for 2002, 2003 and 2004, respectively.
- 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 that the allowance for doubtful accounts of $1.2 million at December 31, 2004 is adequate to provide for probable losses resulting from accounts receivable.

Inventory Reserves

We maintain reserves for excess and obsolete inventory resulting from the 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 result in our products becoming 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. We believe that our current inventory reserves are adequate.

Business Acquisitions

We have a history of growth through acquisitions, including the Bard Endoscopic Technologies acquisition in 2004. Assets and liabilities of acquired businesses are recorded under the purchase method of accounting at their estimated fair values as of the date 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 $334.5 million and other intangible assets of $195.2 million as of December 31, 2004.

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. 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 may 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 undiscounted future cash flows indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized by reducing the recorded value to its current fair value. Although no goodwill or other intangible asset impairment has been recorded to date, there can be no assurance that future impairment will not occur. It is our policy to perform annual impairment tests in the fourth quarter.

In connection with the Bard Endoscopic Technologies acquisition, significant estimates were made in the $16.4 million valuation of purchased in-process research and development assets. The purchased in-process research and development value relates to next generation gastro-intestinal products, which are expected to be released between the fourth quarter of 2005 and second quarter of 2006. The acquired projects include enhancements and upgrades to existing device technology, introduction of new device functionality and the development of new technology for gastro-intestinal 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. Estimated future net cash flows were discounted back to their present values using a discount rate of 17%, which was based on the weighted-average cost of capital for publicly-traded companies within the medical device industry, 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 commercial feasibility. In total, these projects were approximately 40% complete as of the acquisition date.

The total budgeted costs for the projects were approximately $8.5 million and the remaining costs to complete these projects were approximately $5.0 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 may be made that the underlying assumptions used to forecast the future 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 estimated results.

See Note 2 to the Consolidated Financial Statements for further discussion.

Pension Plan

We sponsor a defined benefit pension plan covering substantially all our employees. Overall benefit levels provided under the plan were reduced effective January 1, 2004 resulting in a reduction in the projected benefit obligation of approximately $6.4 million. Major assumptions used in accounting for the plan include the discount rate, expected return on plan assets, rate of increase in employee compensation levels and expected mortality. Assumptions are determined based on Company data and appropriate market indicators, and are evaluated annually as of the plan's measurement date. A change in any of these assumptions would have an effect on net periodic pension costs reported in the Consolidated Financial Statements.

Lower market interest rates have resulted in us lowering the discount rate used in determining pension expense from 6.25% in 2004 to 5.75% in 2005. This change in assumption will result in higher pension expense during 2005.

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.

We have estimated our rate of increase in employee compensation levels at 3.0% consistent with our internal budgeting.

As of December 31, 2004, the Company changed from the 1984 Unisex Pension mortality table to the 1994 Group Annuity Reserving mortality table for purposes of determining expected mortality. This change in assumption will result in higher pension expense during 2005.

Based on these and other factors, 2005 pension expense is estimated at approximately $4.5 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 $22.7 million at December 31, 2004. 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. Any subsequently recognized tax benefits associated with the valuation allowance would be allocated to reduce goodwill. 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 may be impacted by changes to tax laws, changes to statutory tax rates and future taxable income levels.

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,	2002	2003	2004
Net sales	100.0%	100.0%	100.0%
Cost of sales	47.7	47.8	48.6
Gross margin	52.3	52.2	51.4
Selling and administrative expense	30.8	31.7	32.8
Research and development expense	3.6	3.4	3.6
Write-off of purchased in-process research and development assets	—	1.7	2.9
Other expense (income), net	0.4	(0.6)	0.8
Income from operations	17.5	16.0	11.3
Loss on early extinguishment of debt	0.3	1.6	0.1
Interest expense	5.5	3.7	2.3
Income before income taxes	11.7	10.7	8.9
Provision for income taxes	4.2	4.2	2.9
Net income	7.5%	6.5%	6.0%

2004 Compared to 2003

Sales for 2004 were $558.4 million, an increase of $61.3 million (12.3%) compared to sales of $497.1 million in 2003. The Bionx acquisition and Bard Endoscopic Technologies acquisition accounted for $3.3 million and $15.7 million of the increase, respectively, and favorable foreign currency exchange rates accounted for $9.7 million. The Bionx acquisition and Bard Endoscopic Technologies acquisition are described more fully in Note 2 to the Consolidated Financial Statements.

- Arthroscopy sales increased $22.9 million (12.6%) in 2004 to $204.9 million from $182.0 million in 2003, principally as a result of the Bionx acquisition and increased sales of our procedure specific, knee reconstruction, soft tissue fixation and video imaging products for arthroscopy and general surgery. This increase was offset in part by reduced sales of integrated operating room systems and equipment.
- Powered surgical instrument sales increased $6.6 million (5.4%) in 2004 to $128.6 million from $122.0 million in 2003, principally as a result of increased sales of our PowerPro® line of large bone instruments. This increase was partially offset by decreased sales of our small bone instruments and specialty product offerings.
- Patient care sales increased $5.9 million (8.4%) in 2004 to $75.9 million from $70.0 million in 2003, principally as a result of increased sales of our pulse oximetry monitoring devices, ECG electrodes, surgical suction instruments and other patient care products.

- Electrosurgery sales increased $8.6 million (11.1%) in 2004 to $85.9 million from $77.3 million in 2003, principally as a result of increased sales of electrosurgical disposable ground pads and pencils.
- EndoSurgery sales increased $1.6 million (3.5%) in 2004 to $47.4 million from $45.8 million in 2003, as a result of increased sales of our various laparoscopic instrument products and systems.
- Endoscopic Technologies sales for 2004 were $15.7 million representing the inclusion of results of operations for the former Endoscopic Technologies Division of C.R. Bard since the date of acquisition.

Cost of sales increased to $271.5 million in 2004 compared to $237.4 million in 2003, primarily as a result of increased sales volumes in each of our principal product lines as described above. Gross profit margins decreased from 52.2% in 2003 to 51.4% in 2004. We incurred $4.4 million and $1.3 million of acquisition-related expenses during 2004 and 2003, respectively, which have been included in cost of sales. The decrease in gross margin percentage in 2004 as compared to 2003 is principally due to the increase in acquisition-related expenses.

The $4.4 million of acquisition-related charges included in cost of sales in 2004, consists of the following: $2.3 million of expense which represents a portion of the step-up to fair value recorded relating to the sale of inventory acquired through the Bard Endoscopic Technologies acquisition; and $2.1 million in charges representing the incremental costs we are incurring during a transition period in which we are continuing to purchase the acquired products from C.R. Bard. During 2005, we expect to continue to experience higher incremental costs until manufacturing of the acquired products is integrated into our facilities during the third quarter of 2005.

Selling and administrative expense increased to $183.2 million in 2004 as compared to $157.5 million in 2003. Selling and administrative expense as a percentage of net sales increased to 32.8% in 2004 from 31.7% in 2003. This increase of 1.1 percentage points is attributable to increased selling expenses primarily associated with the transition to a larger, independent sales agent based sales force in our arthroscopy and powered surgical instrument product lines (0.6 percentage points) and increased administrative expenses associated with litigation against Johnson & Johnson (See Note 11 to the Consolidated Financial Statements) and our Sarbanes-Oxley compliance program (0.5 percentage points).

Research and development expense was $20.2 million in 2004 compared to $17.3 million in 2003. As a percentage of net sales, research and development expense increased to 3.6% in 2004 from 3.4% in 2003. The increase in research and development expense as a percentage of sales is principally a result of increased spending on the development of our Pro2® reflectance pulse oximetry system and endotracheal cardiac output monitor for our Patient Care business. The addition of the Endoscopic Technologies business in September 2004 also contributed to the increase in research and development expense.

As discussed in Note 2 to the Consolidated Financial Statements, we wrote-off $16.4 million and $7.9 million of purchased in-process research and development assets associated with the Bard Endoscopic Technologies acquisition and Bionx acquisition in 2004 and 2003, respectively.

As discussed in Note 12 to the Consolidated Financial Statements, other expense in 2004 consisted primarily of $2.4 million of expenses associated with the termination of our surgical lights product offering and $1.5 million of expenses related to the Bard Endoscopic Technologies acquisition. We expect to incur an additional $1.6 million in expenses associated with the termination of our surgical lights product offering in 2005. As discussed in Note 12 to the Consolidated Financial Statements, other income in 2003 consisted of a $9.0 million net gain on the settlement of a contractual dispute, $2.8 million in pension settlement costs associated with the restructuring of our orthopedic sales force and $3.2 million in acquisition costs related primarily to the acquisition of CORE Dynamics, Inc. (the "CORE acquisition" – See Note 2 to the Consolidated Financial Statements) and Bionx acquisition.

During 2004, we recorded $0.8 million in losses on the early extinguishment of debt related to the refinancing of a portion of the term loans under our senior credit agreement through the issuance of 2.50% convertible senior subordinated notes. See additional discussion under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources and Note 6 to the Consolidated Financial Statements.

Interest expense in 2004 was $12.8 million compared to $18.9 million in 2003. The decrease in interest expense is primarily a result of lower weighted average borrowings outstanding in 2004 as compared to 2003 and lower weighted average interest rates on our borrowings (4.17% in 2004 as compared to 5.99% in 2003) inclusive of the implicit finance charge on our accounts receivable sale facility. The decrease in weighted average interest rates on our borrowing is primarily a result of our redemption of $130.0 million in 9% senior subordinated notes in 2003 (See Note 6 to the Consolidated Financial Statements) in favor of lower cost bank debt.

A provision for income taxes has been recorded at an effective rate of 32.5% in 2004 and 39.5% in 2003. The effective rate for 2004 was lower than that recorded in 2003 and the United States statutory rate of 35.0% as a result of an increase in the estimated benefits to be realized from the Extraterritorial Income Exclusion ("ETI") tax rules on foreign sales. The effective rate in 2003 increased from the statutory rate as a result of the non-deductibility for income tax purposes of the Bionx in-process research and development charge discussed above.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the "Act"). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. In return, the Act also provides for a two-year phase-out of the existing ETI for foreign sales that was viewed to be inconsistent with international trade protocols by the European Union. We expect the net effect of the phase out of the ETI and the phase in of this new deduction to result in an increase in the effective rate of approximately two percentage points for 2005 compared to the 2004 effective tax rate of 32.5%. See additional discussion and a reconciliation of the United States statutory income tax rate to our effective tax rate in Note 7 to the Consolidated Financial Statements.

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 CORE acquisition and Bionx acquisition accounted for $7.2 million and

$12.6 million of the increase, respectively, and favorable foreign currency exchange rates accounted for $10.8 million. The Bionx and CORE acquisitions are described more fully in Note 2 to the Consolidated Financial Statements.

- Arthroscopy sales increased $19.4 million (11.9%) in 2003 to $182.0 million from $162.6 million in 2002. This increase was primarily attributable to the Bionx acquisition and inclusion of full year results from two businesses acquired during 2002 engaged in the design, manufacture and installation of integrated operating room systems and equipment.
- Powered surgical instrument sales increased $7.7 million (6.7%) in 2003 to $122.0 million from $114.3 million in 2002, primarily as a result of increased sales of our new PowerPro® line of powered instrument products.
- 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 continued 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, primarily as a result of increased sales of our new System 5000® electrosurgical generator.
- EndoSurgery sales increased $9.0 million (24.5%) in 2003 to $45.8 million from $36.8 million in 2002, principally as a result of the inclusion of full year sales from the CORE acquisition.

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 in each of our principal product lines as described above. Gross profit margins decreased from 52.3% in 2002 to 52.2% in 2003. As discussed in Note 2 to the Consolidated Financial Statements, during 2003, we incurred $1.3 million of acquisition-related charges which have been 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 lower gross margins for 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 increased to 31.7% in 2003 from 30.8% in 2002. This increase of 0.9 percentage points is primarily attributable to the transition to a larger, independent sales agent based sales force in 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 of the sales force and 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 was $17.3 million in 2003 compared to $16.1 million in 2002. As a percentage of sales, research and development expense decreased to 3.4% in 2003 from 3.6% in 2002 due to higher net sales. The increase in research and development spending is principally as a result of 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 discussed in Note 2 to the Consolidated Financial Statements, during the first quarter of 2003 we wrote-off purchased in-process research and development assets of $7.9 million associated with the Bionx acquisition.

As discussed in Note 12 to the Consolidated Financial Statements, other income in 2003 consisted primarily of a $9.0 million net gain on the settlement of a contractual dispute, $2.8 million in pension settlement costs associated with the restructuring of our orthopedic sales force and $3.2 million in costs related primarily to the CORE acquisition and Bionx acquisition. Other expense in 2002 consisted of a $2.0 million loss on the settlement of a patent dispute.

As discussed in Note 6 to the Consolidated Financial Statements, we repurchased $130.0 million of our 9% senior subordinated notes during 2003 and recorded a loss on the early extinguishment of debt in the amount of $8.1 million. This amount represents call premium and unamortized deferred financing costs associated with the purchase. During 2002, we recorded an expense in the amount of $1.5 million related to the refinancing of our debt agreements.

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 and lower weighted average interest rates on our borrowings (5.99% in 2003 as compared to 7.45% in 2002) inclusive of the implicit finance charge on our accounts receivable sale facility. The decrease in weighted average interest rates on our borrowing is primarily a result of our redemption of $130.0 million in 9% senior subordinated notes in 2003 (See Note 6 to the Consolidated Financial Statements) in favor of lower cost bank debt.

A provision for income taxes has been recorded at an effective rate of 39.5% in 2003 and 36.0% in 2002. The effective rate for 2003 was substantially higher than that recorded in 2002 and the United States statutory rate of 35.0% as a result of the non-deductibility for income tax purposes of the Bionx in-process research and development charge discussed above. 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

Our liquidity needs arise primarily from capital investments, working capital requirements and payments on indebtedness under the senior credit agreement. We have historically met these liquidity requirements with funds generated from operations, including sales of accounts receivable and borrowings under our revolving credit facility. In addition, we use term borrowings, including borrowings under our senior credit agreement and borrowings under separate loan facilities, in the case of real property purchases, to finance our acquisitions. We also have the ability to raise funds through the sale of stock or we may issue debt through a private placement or public offering.

Operating cash flows

Our net working capital position was $159.9 million at December 31, 2004. Net cash provided by operating activities was

$48.4 million, $58.4 million and $74.8 million for 2002, 2003 and 2004, respectively.

Net cash provided by operating activities in 2004 was favorably impacted by the following noncash charges to income: depreciation, amortization, deferred income taxes, pension costs in excess of pension contributions, the write-off of purchased in-process research and development assets and the write-off of unamortized deferred financing costs. Also benefiting cash flow from operations were the income tax benefit of stock option exercises, increased sales of accounts receivable, increases in accounts payable and accrued compensation and decreases in inventory.

Net cash provided by operating activities in 2004 was unfavorably impacted principally by increases in other assets and decreases in other liabilities as a result of timing of cash payments, increased cash payments for income taxes and increases in accounts receivable as a result of increased sales levels.

Investing cash flows

Capital expenditures were $13.4 million, $9.3 million and $12.4 million for 2002, 2003 and 2004, respectively. These capital expenditures represent the ongoing capital investment requirements of our business and are expected to continue at the same approximate rate during 2005.

Net cash flow used in investing activities in 2004 consisted primarily of $81.3 million in payments related to the Bard Endoscopic Technologies acquisition.

Financing cash flows

Net cash provided by (used in) financing activities during 2004 consisted of the following: $15.2 million in proceeds from the issuance of common stock under our stock option plans and employee stock purchase plan (See Note 8 to the Consolidated Financial Statements); $114.9 million in net repayments under the senior credit agreement; $5.1 million in net repayments on mortgage notes; $150.0 million in gross proceeds from the issuance of 2.50% convertible senior subordinated notes; $5.8 million in payments related to the offering of the 2.50% convertible senior subordinated notes; $6.2 million net change in cash overdrafts; and the repurchase of 1.1 million shares of our common stock at an aggregate cost of approximately $30.0 million.

Our senior credit agreement consists of a $100 million revolving credit facility and a $260 million term loan. At December 31, 2004 there were no amounts outstanding on the revolving credit facility. The aggregate amount outstanding on the term loan was $128.1 million at December 31, 2004. The term loan is scheduled to be repaid in quarterly installments over a period of approximately 5 years, with scheduled principal payments of $2.6 million annually through December 2007 increasing to $60.3 million in 2008 and the remaining balance outstanding due in December 2009. We have made all scheduled term loan repayments as they have come due. We may also be required, under certain circumstances, to make additional principal payments based on excess annual cash flow as defined in the senior credit agreement. No such payments were required during 2004. Interest rates on the term facility and the revolving credit facility are at the London Interbank Offered Rate ("LIBOR") plus 2.25% (4.65% at December 31, 2004).

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 (See Note 1 to the Consolidated Financial Statements). 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 which could limit our ability to access additional funding under our revolving credit facility 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.

Outstanding debt assumed in connection with the 2001 purchase of property in Largo, Florida utilized by our CONMED Linvatec subsidiary 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"). The principal balances outstanding on the Class A note and Class C note aggregated $8.3 million and $8.2 million, respectively, at December 31, 2004. These loans are secured by our Largo, Florida property.

On November 11, 2004, we completed an offering, in a private placement, of $150.0 million in 2.50% convertible senior subordinated notes (the "Notes") due 2024. This offering has allowed us to fix interest rates on $150.0 million of our total outstanding long-term debt at 2.50%. The Notes represent our subordinated unsecured obligations and are convertible under the following circumstances, as defined in the bond indenture, into a combination of cash and CONMED common stock: when the closing price of our common stock for each of 20 or more consecutive trading days in a period of 30 consecutive trading days exceeds 130% of the applicable conversion price; after any 10 consecutive trading day period in which the average trading price per $1,000 principal amount of the Notes was equal to or less than 97% of the average conversion value of the Notes; if we call a Note for redemption; and based on certain corporate transactions such as if we are party to a consolidation, merger or binding share exchange in which over 50% of our outstanding shares of common stock would be converted into cash, securities or other property, or if another fundamental change (as defined in the bond indenture) occurs. Upon conversion, the holder of each Note will receive the conversion value of the Note payable in cash up to the principal amount of the Note and CONMED common stock for the Note's conversion value in excess of such principal amount. Amounts in excess of the principal amount are at an initial conversion rate, subject to adjustment, of 26.1849 shares per $1,000 principal amount of the Note (which represents an initial conversion price of $38.19 per share). The Notes mature on November 15, 2024 and are not redeemable by us prior to November 15, 2011. Holders of the Notes will be able to require that we repurchase some or all of the Notes on November 15, 2011, 2014 and 2019.

We have determined that the Notes contain two embedded derivatives. The embedded derivatives are recorded at fair value in other long-term liabilities and changes in their value are recorded through the consolidated statement of income. The embedded derivatives have a nominal value, and it is our belief that any

change in their fair value would not have a material adverse effect on our business, financial condition or results of operations.

The Notes offering resulted in gross proceeds of $150.0 million, less $5.8 million in initial purchaser's discount and other offering related payments which are being amortized to interest expense over a 7 year period through November 15, 2011 (the earliest date at which we may be required to repurchase some or all of the Notes). Net proceeds from the offering and cash on hand were used to repay $82.2 million on the term loan and a further $45.0 million in borrowings then outstanding on the revolving credit facility under our senior credit agreement. (The revolving credit facility borrowings were used to finance a portion of the Bard Endoscopic Technologies acquisition—See Note 2 to the Consolidated Financial Statements). Additionally, in conjunction with the Notes offering, we repurchased $30.0 million of our common stock in privately negotiated transactions. As a result of the $82.2 million prepayment on the term loan, we recorded $0.8 million in losses on the early extinguishment of debt related to the write-off of unamortized deferred financing fees.

Initial purchasers for the Notes included UBS Securities LLC, Banc of America Securities LLC, Citigroup Global Markets Inc. and JP Morgan Securities Inc. (the "initial purchasers"). The Notes were resold by the initial purchasers to qualified institutional buyers within the meaning of Rule 144A under the Securities Act of 1933, as amended. The Notes and the underlying common stock issuable upon conversion have not been registered under the Securities Act or any applicable state securities laws and may not be offered or sold in the United States, absent registration or an applicable exemption from such registration requirements. We have filed a registration statement with the Securities and Exchange Commission on Form S-3, which is not yet effective, which will enable the qualified institutional buyers to resell their holdings in the Notes.

On February 15, 2005, we announced that our Board of Directors has authorized a share repurchase program under which we may repurchase up to $50.0 million of our common stock, although no more than $25.0 million may be purchased in any calendar year. The repurchase program calls for shares to be purchased in the open market or in private transactions from time to time. We may suspend or discontinue the share repurchase program at any time. We expect to repurchase shares to offset the dilutive effect of the issuance of shares under our employee stock option and employee stock purchase plans, but we may also repurchase shares depending upon market conditions and the market price of our common stock. We expect to finance repurchases from cash-on-hand and amounts available under our senior credit agreement.

Management believes that cash flow from operations, including accounts receivable sales, cash and cash equivalents on hand and available borrowing capacity under our senior credit agreement will be adequate to meet our anticipated operating working capital requirements, debt service, funding of capital expenditures and common stock repurchases in the foreseeable future.

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 bank (the "purchaser"). The purchaser's 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 may be less than the amount of the purchaser's asset interest, there is no recourse to CONMED or CRC for such shortfall. For receivables which have been sold, CONMED Corporation and its subsidiaries retain collection and administrative responsibilities as agent for the purchaser. As of December 31, 2003 and 2004, the undivided percentage ownership interest in receivables sold by CRC to the purchaser aggregated $44.0 million and $49.0 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 $0.8 million and $1.0 million, in 2003 and 2004, 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 meet the requirements for sale under the accounts receivables 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 was amended effective October 20, 2004 whereby it was extended for an additional year under substantially the same terms and conditions.

Contractual Obligations

The following table summarizes our contractual obligations for the next five years and thereafter (amounts in thousands). Purchase obligations represent purchase orders for goods and services placed in the ordinary course of business. There were no capital lease obligations as of December 31, 2004.

		Payments Due by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt	$ 294,522	$ 4,037	$ 8,601	$124,112	$157,772
Purchase obligations	73,059	72,783	255	21	—
Operating lease obligations	13,990	2,796	5,208	3,795	2,191
Total contractual obligations	$ 381,571	$79,616	$14,064	$127,928	$159,963

In addition to the above contractual obligations, we are required to make periodic interest payments on our long-term debt obligations. (See additional discussion under "Quantitative and

Qualitative Disclosures About Market Risk—Interest Rate Risk" and Note 6 to the Consolidated Financial Statements). We may also be required to make contributions to our pension plan which are not expected to exceed $4.5 million in 2005. (See Note 10 to the Consolidated Financial Statements).

Stock-based Compensation

We have reserved shares of common stock for 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 (See Note 8 to the Consolidated Financial Statements).

New Accounting Pronouncements

See Note 14 to the Consolidated Financial Statements for a discussion of new accounting pronouncements.

Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential loss arising from adverse changes in market rates and prices such as commodity prices, foreign currency exchange rates and interest rates. In the normal course of business, we are exposed to various market risks, including changes in foreign currency exchange rates and interest rates. We manage our exposure to these and other market risks through regular operating and financing activities and as necessary through the use of derivative financial instruments.

Foreign Currency Risk

A significant portion of our operations consist of sales activities in foreign jurisdictions. As a result, our financial results may be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the markets in which we distribute products. As of December 31, 2004, we have not entered into any foreign exchange forward or option contracts designed to hedge the effect of foreign currency transactions. We have mitigated the effect of foreign currency exchange rate risk by transacting a significant portion of our foreign sales in United States dollars. During 2004, changes in currency exchange rates increased sales by approximately $9.7 million and income before income taxes by approximately $6.4 million. In the future, we will continue to evaluate our foreign currency exposure and assess the need to enter into derivative contracts which hedge foreign currency transactions.

Interest Rate Risk

At December 31, 2004, we had approximately $128.1 million of variable rate long-term debt under our senior credit agreement; we are not a party to any interest rate swap agreements as of December 31, 2004. Assuming no repayments other than our 2005 scheduled term loan payments, if market interest rates for similar borrowings average 1.0% more in 2005 than they did in 2004, interest expense would increase, and income before income taxes would decrease by $1.3 million. Comparatively, if market interest rates for similar borrowings average 1.0% less in 2005 than they did in 2004, our interest expense would decrease, and income before income taxes would increase by $1.3 million.

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 which are 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, which 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:

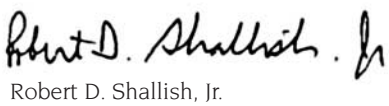
- general economic and business conditions;
- cyclical customer purchasing patterns due to budgetary and other constraints;
- changes in customer preferences;
- competition;
- changes in technology;
- the introduction and acceptance of new products;
- the ability to evaluate, finance and integrate acquired 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.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of CONMED Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management assessed the effectiveness of CONMED's internal control over financial reporting as of December 31, 2004. In making its assessment, management utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "Internal Control-Integrated Framework." Management has concluded that based on its assessment, CONMED's internal control over financial reporting was effective as of December 31, 2004. Management's assessment of the effectiveness of CONMED's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 20.

Eugene R. Corasanti
Chairman of the Board and
Chief Executive Officer



Robert D. Shallish, Jr.
Vice President-Finance and
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of CONMED Corporation

We have completed an integrated audit of CONMED Corporation's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of CONMED Corporation and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in "Management's Report on Internal Control over Financial Reporting," appearing on page 19, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Syracuse, New York

March 15, 2005

CONSOLIDATED BALANCE SHEETS

December 31, 2003 and 2004
(In thousands except share amounts)

	2003	2004
Assets		
Current assets:		
Cash and cash equivalents	$ 5,986	$ 4,189
Accounts receivable, less allowance for doubtful accounts of $1,672 in 2003 and $1,235 in 2004	60,449	74,593
Inventories	120,945	127,935
Deferred income taxes	10,188	13,733
Prepaid expenses and other current assets	3,538	2,492
Total current assets	201,106	222,942
Property, plant and equipment, net	97,383	101,465
Goodwill, net	290,562	334,483
Other intangible assets, net	193,969	195,234
Other assets	22,038	18,701
Total assets	$ 805,058	$ 872,825
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 4,143	$ 4,037
Accounts payable	18,320	28,913
Accrued compensation and benefits	10,685	12,655
Income taxes payable	10,877	5,870
Accrued interest	279	748
Other current liabilities	10,551	10,838
Total current liabilities	54,855	63,061
Long-term debt	260,448	290,485
Deferred income taxes	46,143	51,433
Other long-term liabilities	10,122	19,863
Total liabilities	371,568	424,842
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; 29,140,644 and 30,135,835, issued in 2003 and 2004, respectively	291	301
Paid-in capital	237,076	256,551
Retained earnings	194,473	227,938
Accumulated other comprehensive income (loss)	2,069	(6,399)
Less: Treasury stock, at cost; 37,500 and 1,156,500 shares in 2003 and 2004, respectively	(419)	(30,408)
Total shareholders' equity	433,490	447,983
Total liabilities and shareholders' equity	$ 805,058	$ 872,825

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2002, 2003 and 2004
(In thousands except per share amounts)

	2002	2003	2004
Net sales	$ 453,062	$ 497,130	$ 558,388
Cost of sales	215,891	237,433	271,496
Gross profit	237,171	259,697	286,892
Selling and administrative expense	139,735	157,453	183,183
Research and development expense	16,087	17,306	20,205
Write-off of purchased in-process research and development assets	—	7,900	16,400
Other expense (income)	2,000	(2,917)	3,943
	157,822	179,742	223,731
Income from operations	79,349	79,955	63,161
Loss on early extinguishment of debt	1,475	8,078	825
Interest expense	24,513	18,868	12,774
Income before income taxes	53,361	53,009	49,562
Provision for income taxes	19,210	20,927	16,097
Net income	$ 34,151	$ 32,082	$ 33,465
Earnings per share			
Basic	$ 1.25	$ 1.11	$ 1.13
Diluted	1.23	1.10	1.11

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2002, 2003 and 2004

(In thousands)

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Shareholders' Equity
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
Common stock issued under employee plans	995	10	15,578				15,588
Tax benefit arising from common stock issued under employee plans			3,897				3,897
Repurchase of common stock						(29,989)	(29,989)
Comprehensive income:							
Foreign currency translation adjustments					2,133		
Cash flow hedging (net of income tax benefit of $82)					(146)		
Minimum pension liability (net of income tax benefit of $5,630)					(10,455)		
Net income				33,465			
Total comprehensive income							24,997
Balance at December 31, 2004	30,136	$ 301	$ 256,551	$227,938	$ (6,399)	$(30,408)	$ 447,983

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2002, 2003 and 2004
(In thousands)

	2002	2003	2004
Cash flows from operating activities:			
Net income	$ 34,151	$ 32,082	$ 33,465
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	9,203	10,539	10,962
Amortization	13,167	14,315	15,906
Deferred income taxes	10,664	13,715	4,301
Income tax benefit of stock option exercises	1,970	390	3,897
Contributions to pension plans less than (in excess of) net pension cost	(1,999)	(11,082)	3,619
Write-off of purchased in-process research and development assets	—	7,900	16,400
Write-off of deferred financing costs	1,475	2,181	825
Increase (decrease) in cash flows from changes in assets and liabilities, net of effects from acquisitions:			
Sale of accounts receivable	(3,000)	7,000	5,000
Accounts receivable	(2,151)	(6,405)	(19,144)
Inventories	(15,213)	(3,411)	1,441
Accounts payable	4,641	(4,732)	4,350
Income taxes payable	4,217	2,188	(2,532)
Accrued compensation and benefits	(1,584)	(338)	1,626
Accrued interest	(1,160)	(3,515)	469
Other assets	(3,790)	(3,138)	(3,884)
Other liabilities	(2,184)	694	(1,861)
	14,256	26,301	41,375
Net cash provided by operating activities	48,407	58,383	74,840
Cash flows from investing activities:			
Payments related to business acquisitions, net of cash acquired	(17,375)	(55,079)	(81,645)
Purchases of property, plant and equipment, net	(13,384)	(9,309)	(12,419)
Other investing activities	—	(4,085)	—
Net cash used in investing activities	(30,759)	(68,473)	(94,064)
Cash flows from financing activities:			
Net proceeds from issuance of common stock	66,123	—	—
Net proceeds from common stock issued under employee plans	5,017	3,200	15,200
Repurchase of common stock	—	—	(29,989)
Repurchase of warrant on common stock	(2,000)	—	—
Redemption of 9.0% senior subordinated notes	—	(130,000)	—
Payments on senior credit agreement	(182,997)	(22,000)	(114,937)
Proceeds of senior credit agreement	105,138	160,000	—
Payments on mortgage notes	(683)	(796)	(5,132)
Proceeds from issuance of 2.5% convertible senior subordinated notes	—	—	150,000
Payments related to issuance of debt	(1,513)	(1,950)	(5,848)
Net change in cash overdrafts	(3,484)	(373)	6,209
Net cash provided by (used in) financing activities	(14,399)	8,081	15,503
Effect of exchange rate changes on cash and cash equivalents	975	2,369	1,924
Net increase (decrease) in cash and cash equivalents	4,224	360	(1,797)
Cash and cash equivalents at beginning of year	1,402	5,626	5,986
Cash and cash equivalents at end of year	$ 5,626	$ 5,986	$ 4,189
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 24,453	$ 21,698	$ 12,680
Income taxes	5,478	5,507	11,994

Supplemental disclosures of non-cash investing and financing activities:

As more fully described in Note 2, we assumed $3.4 million, $12.1 million and $3.5 million in liabilities in connection with business acquisitions in 2002, 2003 and 2004, respectively.

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 purchase of several businesses in 2002.

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, endosurgery 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 newest product line, CONMED Endoscopic Technologies offers a portfolio of innovative disposable products used by gastroenterologists to diagnose and treat diseases of the digestive tract. 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 significant 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 judgments which affect the reported amounts of assets, liabilities, related disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Estimates are used in accounting for, among other things, allowances for uncollectible accounts, rebates and sales allowances, inventory allowances, purchased in-process research and development, pension benefits, goodwill and intangible assets, contingencies and other accruals. We base our estimates on historical experience and on various other assumptions which are believed to be reasonable under the circumstances. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates. Estimates and assumptions are reviewed periodically, and the effect of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary.

Cash and 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 bank (the "purchaser"). The purchaser's 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 may be less than the amount of the purchaser's asset interest, there is no recourse to CONMED or CRC for such shortfall. For receivables which have been sold, CONMED Corporation and its subsidiaries retain collection and administrative responsibilities as agent for the purchaser. As of December 31, 2003 and 2004, the undivided percentage ownership interest in receivables sold by CRC to the purchaser aggregated $44.0 million and $49.0 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 $0.8 million and $1.0 million, in 2003 and 2004, 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 meet the requirements 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 was amended effective October 20, 2004 whereby it was extended for an additional year under substantially the same terms and conditions.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined on the FIFO (first-in, first-out) method of accounting.

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	Shorter of life of asset or 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 (60.7% at December 31, 2004) of our total assets.

In June 2001, the Financial Accounting Standards Board issued 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.

We perform impairment tests of goodwill and indefinite-lived intangible assets and evaluate the useful lives of acquired intangible assets subject to amortization. These tests and evaluations are 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 annual impairment tests in the fourth quarter.

Other long-lived assets

We review asset carrying amounts for impairment (consisting of intangible assets subject to amortization and property, plant and equipment) whenever events or circumstances indicate that such carrying amounts 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 its current fair value.

Equity investments

We have several investments in the common stock of other companies in our industry which represent 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. We review these investments for impairment whenever events or circumstances indicate that the carrying amounts of these investments may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the investment, an impairment loss is recognized by reducing the recorded value to its current fair value.

Fair value of financial instruments

The carrying amounts reported in our balance sheets for cash and cash equivalents, accounts receivable, accounts payable and long-term debt excluding the 2.50% convertible senior subordinated notes (the "Notes") approximate fair value. The fair value of the Notes approximated $156.0 million at December 31, 2004, based on their quoted market price.

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

Revenue is recognized when title has been transferred to the customer, which is generally at the time of shipment.

The following policies apply to our major categories of revenue transactions:

- 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 term of individual commitment agreements.
- Product returns are only accepted at the discretion of the Company and in accordance with our "Returned Goods Policy." Historically, the level of product returns has not been significant. We accrue for sales returns, rebates and allowances based upon an analysis of historical customer returns and credits, rebates, discounts and current market conditions.
- The Company's terms of sale to customers generally do not include any obligations to perform future services. Limited warranties are generally provided for capital equipment sales and provisions for warranty are provided at the time of product sale based upon an analysis of historical data.
- Amounts billed to customers related to shipping and handling have been included in net sales. Shipping and handling costs included in selling and administrative expense were $7.5 million, $8.3 million and $9.3 million for 2002, 2003 and 2004, respectively.
- 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 that the allowance for doubtful accounts of $1.2 million at December 31, 2004 is adequate to provide for probable losses resulting from accounts receivable.

Earnings per share

We compute basic earnings per share ("basic EPS") by dividing net income by the weighted average number of shares outstanding for the reporting period. Diluted earnings per share ("diluted EPS") gives effect to all dilutive potential shares outstanding resulting from employee stock options during the period. The following table sets forth the calculation of basic and diluted earnings per share at December 31, 2002, 2003 and 2004, respectively:

	2002	2003	2004
Net income	$ 34,151	$ 32,082	$ 33,465
Basic-weighted average shares outstanding	27,337	28,930	29,523
Effect of dilutive potential securities	490	326	582
Diluted-weighted average shares outstanding	27,827	29,256	30,105
Basic EPS	$ 1.25	$ 1.11	$ 1.13
Diluted EPS	$ 1.23	$ 1.10	$ 1.11

The shares used in the calculation of diluted EPS exclude options to purchase shares where the exercise price was greater than the average market price of common shares for the year. Such shares aggregated approximately 0.7 million, 1.3 million and 0.1 million at December 31, 2002, 2003 and 2004, respectively. In accordance with EITF (Emerging Issues Task Force) Issue 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share," the shares used in the calculation of diluted EPS exclude the potential shares contingently issuable under our 2.50% convertible senior subordinated notes because they are not dilutive. The maximum number of shares we may issue with respect to the Notes is 5,750,000. See Note 6 for further discussion of the Notes.

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 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 2002, 2003 and 2004 was $9.32, $5.81 and $14.59, respectively. The fair value of these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for options granted in 2002, 2003 and 2004, respectively: Risk-free interest rates of 2.70%, 3.13% and 4.04%; volatility factors of the expected market price of the Company's common stock of 41.10%, 32.08% and 51.20%; a weighted-average expected life of the option of 5.0 years in 2002 and 2003, and 7.3 years in 2004; 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 following table illustrates the effect on net earnings as if the fair value provisions of SFAS 123 had been applied to stock-based employee compensation:

	2002	2003	2004
Net income—as reported	$ 34,151	$ 32,082	$ 33,465
Pro forma stock-based employee compensation expense, net of related income tax effect	(2,156)	(2,383)	(4,598)
Net income—pro forma	$ 31,995	$ 29,699	$ 28,867
Earnings per share—as reported:			
Basic	$ 1.25	$ 1.11	$ 1.13
Diluted	$ 1.23	$ 1.10	$ 1.11
Earnings per share—pro forma:			
Basic	$ 1.17	$ 1.03	$ 0.98
Diluted	$ 1.15	$ 1.02	$ 0.96

In December 2004, SFAS 123 was revised to require that all share-based payments be recognized in the financial statements based on their fair values. We will be required to adopt revised SFAS 123 in the third quarter of 2005 (See additional discussion in Note 14).

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, 2003	—	$ 1,923	$ 146	$ 2,069
Foreign currency translation adjustments	—	2,133	—	2,133
Cash flow hedging (net of income taxes)	—	—	(146)	(146)
Minimum pension liability (net of income taxes)	(10,455)	—	—	(10,455)
Balance, December 31, 2004	(10,455)	$ 4,056	$ —	$ (6,399)

Reclassifications

Certain prior year amounts have been reclassified to conform with the presentation used in 2004.

Note 2 — Business Acquisitions

Assets and liabilities of acquired businesses are recorded under the purchase method of accounting at their estimated fair values as of the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. The results of operations of acquired businesses have been included in the consolidated statements of income since the date of acquisition.

In 2002, we completed the acquisition of several businesses relating to our Patient Care and Endoscopy product lines, including the December 31, 2002 acquisition of CORE Dynamics, Inc. (the "CORE acquisition"). During the same period, we also completed the acquisition of two businesses engaged in the design, manufacture and installation of integrated operating room systems and equipment. Consideration for acquisitions completed during 2002 aggregated $17.4 million in cash, $1.7 million in CONMED common stock and 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 into our facilities. Any future consideration paid will be recorded in goodwill and is not expected to be material. Goodwill recorded in 2002 approximated $16.2 million and was deductible for income tax purposes.

In 2003, we completed several acquisitions relating to our Patient Care and Electrosurgery product lines totaling $6.1 million in cash and recorded additional contingent consideration related to 2002 acquisitions of $2.0 million. Goodwill recorded in 2003 related to these acquisitions approximated $5.9 million and was 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") relating to our Arthroscopy product line, for $47.0 million in cash plus the assumption of approximately $12.1 million in liabilities. The Bionx acquisition was funded primarily through borrowings on our revolving credit facility (See Note 6). Included in cost of sales during 2003 are $1.3 million of 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 incurred in 2003 not related to cost of sales have been recorded in other expense as discussed in Note 12.

Based on a third-party valuation, $7.9 million of the Bionx acquisition purchase price represents the estimated fair value of projects for which the related products, as of the acquisition date had not reached technological feasibility and had no future use. Accordingly, the purchased in-process research and development assets were 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 was recorded on the write-off of purchased IPRD as these costs were not deductible for income tax purposes. Goodwill recorded in 2003 related to the Bionx acquisition approximated $25.2 million and was not deductible for income tax purposes.

In September 2004, we acquired the business operations of the Endoscopic Technologies Division of C.R. Bard, Inc. (the "Bard Endoscopic Technologies acquisition") for aggregate consideration of $81.3 million in cash. We funded the Bard Endoscopic Technologies acquisition through available cash on hand of $31.3 million with an additional $50.0 million drawn under our revolving credit facility (See Note 6). The acquired business included various tangible and intangible assets associated with a comprehensive line of single-use medical devices employed by gastro-intestinal and pulmonary physicians to diagnose and treat diseases of the digestive tract and lungs using minimally invasive endoscopic techniques. The acquired business operations had 2003 revenues approximating $54.0 million and is the third largest domestic supplier of these products to the market.

Manufacturing of the acquired products is currently being conducted in various C.R. Bard facilities under a transition agreement. It is anticipated that future manufacturing will be integrated into our facilities during the third quarter of 2005.

Included in cost of sales during 2004 is $2.3 million of expense which represents a portion of the step-up to fair value recorded relating to the sale of inventory acquired through the Bard Endoscopic Technologies acquisition.

Unaudited pro forma statements of income for the years ended December 31, 2002, 2003 and 2004, assuming the Bionx acquisition occurred as of January 1, 2002 and 2003 and assuming the Bard Endoscopic Technologies acquisition occurred as of January 1, 2003 and 2004 are presented below. These pro forma statements of income have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the Bionx acquisition and Bard Endoscopic Technologies acquisition occurred on the dates indicated, or which may result in the future.

	2002	2003	2004
Net sales	$ 471,530	$ 555,084	$ 604,566
Net income	31,746	28,090	33,749
Net income per share			
Basic	$ 1.16	$ 0.97	$ 1.14
Diluted	$ 1.14	$ 0.96	$ 1.12

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in the Bard Endoscopic Technologies acquisition as of the date of acquisition. Goodwill and identifiable intangible assets associated with the Bard Endoscopic Technologies acquisition are deductible for income tax purposes.

Inventory	$ 15,544
Property, plant and equipment	2,371
Identifiable intangible assets	6,600
In-process research and development	16,400
Goodwill	43,876
Total assets acquired	84,791
Current liabilities assumed	(3,492)
Net assets acquired	$ 81,299

Based on a third-party valuation, $16.4 million of the purchase price represents the fair value of development-stage projects for which the related products, as of the acquisition date had not reached technological feasibility, had not received regulatory approval and had no alternative future use. Accordingly, the entire amount of in-process research and development assets were written-off in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method." The $16.4 million write-off of purchased in-process research and development assets is deductible for income tax purposes.

Approximately 62% of the aggregate purchased in-process research and development value relates to next generation gastro-intestinal products, which are expected to be released between the fourth quarter of 2005 and second quarter of 2006. The remaining two acquired projects include enhancements and upgrades to existing device technology, introduction of new device functionality and the development of new technology for gastro-intestinal 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. Estimated net cash flows were discounted back to their present values using a discount rate of 17%, which was based on the weighted-average cost of capital for publicly-traded companies within the medical device industry, 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 commercial feasibility. In total, these projects were approximately 40% complete as of the acquisition date. The total budgeted costs for the projects were approximately $8.5 million and the remaining costs to complete these projects were approximately $5.0 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 may be made 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 estimated results.

The $6.6 million of identifiable intangible assets consists of trademarks and tradenames, customer-related intangibles and patents. Components of the fair value of acquired intangible assets are as follows:

	Fair Value	Weighted Average Useful Life (Years)	Asset
Customer relationships	$ 4,900	20	Finite-lived
Patents	$ 1,300	9	Finite-lived
Trademarks and tradenames	$ 400		Indefinite-lived

Note 3 — Inventories

Inventories consist of the following at December 31:

	2003	2004
Raw materials	$ 35,352	$ 40,781
Work in process	14,583	13,427
Finished goods	71,010	73,727
	$ 120,945	$ 127,935

Note 4 — Property, Plant and Equipment

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

	2003	2004
Land	$ 4,200	$ 4,200
Building and improvements	75,224	78,637
Machinery and equipment	83,105	92,789
Construction in progress	3,768	3,675
	166,297	179,301
Less: Accumulated depreciation	(68,914)	(77,836)
	$ 97,383	$ 101,465

We lease various manufacturing facilities, office facilities and equipment under operating leases. Rental expense on these operating leases was approximately $2,064, $1,959 and $2,649 for the years ended December 31, 2002, 2003 and 2004, respectively. The aggregate future minimum lease commitments for operating leases at December 31, 2004 are as follows:

Year ending December 31:

2005	$ 2,796
2006	2,701
2007	2,507
2008	2,261
2009	1,534
Thereafter	2,191

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:

	2003	2004
Balance as of January 1,	$ 262,394	$ 290,562
Goodwill acquired	31,210	43,876
Adjustments to goodwill resulting from business acquisitions finalized	(3,285)	176
Foreign currency translation	243	(131)
Balance as of December 31,	$ 290,562	$ 334,483

Goodwill associated with each of our principal operating units at December 31, is as follows:

	2003	2004
CONMED Electrosurgery	$ 15,961	$ 16,249
CONMED Endoscopic Technologies	—	43,876
CONMED EndoSurgery	42,367	42,388
CONMED Linvatec	175,594	175,120
CONMED Patient Care	56,640	56,850
Balance as of December 31,	$ 290,562	$ 334,483

Other intangible assets consist of the following:

	Dec. 31, 2003		Dec. 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	$ 105,712	$ (15,447)	$ 110,612	$ (18,290)
Patents and other intangible assets	33,258	(16,498)	35,444	(19,876)
Unamortized intangible assets:				
Trademarks and tradenames	86,944	—	87,344	—
	$ 225,914	$ (31,945)	$ 233,400	$ (38,166)

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 22 years. Customer relationships are being amortized over a weighted average life of 37 years. Patents and other intangible assets are being amortized over a weighted average life of 10 years.

Customer relationship assets were acquired in connection with the 1997 acquisition of Linvatec Corporation, 2003 Bionx acquisition and 2004 Bard Endoscopic Technologies acquisition. These assets represent the value associated with business expected to be generated from acquired customers as of the acquisition date. Asset values were determined by measuring the present value of the projected future earnings attributable to these assets. Additionally, while the useful lives of these assets are not limited by contract or any other economic, regulatory or other known factors, the weighted average useful life of 37 years was determined as of acquisition date by historical customer attrition. In accordance with SFAS 142 and as clarified by EITF 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 weighted average 37 year life.

Trademarks and tradenames were recognized in connection with the 1997 acquisition of Linvatec Corporation, 2003 Bionx acquisition and 2004 Bard Endoscopic Technologies acquisition. We continue to market products, release new product and product extensions and maintain and promote these trademarks and tradenames in the marketplace through legal registration and such methods as advertising, medical education and trade shows. It is our belief that these trademarks and tradenames will generate cash flow for an indefinite period of time. Therefore, in accordance with SFAS 142, our trademarks and tradenames intangible assets are not amortized.

Amortization expense related to intangible assets for the year ending December 31, 2004 and estimated amortization expense for each of the five succeeding years is as follows:

2004	$ 6,221
2005	5,646
2006	5,077
2007	5,064
2008	4,950
2009	4,556

Note 6 — Long Term Debt

Long term debt consists of the following at December 31:

	2003	2004
Revolving line of credit	$ —	$ —
Term loan borrowings on senior credit facility	243,000	128,063
2.5% Convertible senior subordinated notes	—	150,000
Mortgage notes	21,591	16,459
Total long-term debt	264,591	294,522
Less: Current portion	4,143	4,037
	$ 260,448	$ 290,485

Effective August 28, 2002 we entered into a $200.0 million credit agreement (the "senior credit agreement") with JP Morgan Chase Bank and other financial institutions from time to time party thereto. The senior credit agreement consisted of a $100.0 million revolving credit facility and a $100.0 million term loan. During 2002, deferred financing costs in the amount of $1.5 million which related to the approximately three years remaining on the prior credit agreement were written-off as a loss on the early extinguishment of debt.

Effective June 30, 2003 we entered into an Amended and Restated Credit Agreement (the "amended senior credit agreement") whereby the term loan amount was increased by $160.0 million. Proceeds of the amended senior credit agreement were used to reduce outstanding borrowings on the revolving credit facility, fund the redemption of $130.0 million in 9.0% senior subordinated notes, including accrued interest, fund payment of 4.5% call premium on the senior subordinated notes and fund bank and legal fees associated with the amendment. During 2003, we recorded a loss on the early extinguishment of debt in the amount of $8.1 million. This amount represents $5.9 million of the 4.5% call premium and $2.2 million of unamortized deferred financing costs associated with the redemption of the 9.0% senior subordinated notes.

At December 31, 2004 the amended senior credit agreement consisted of a $100.0 million revolving credit facility and a $128.1 million term loan. There were no borrowings outstanding on the revolving credit facility at December 31, 2004. The term loan is scheduled to be repaid in quarterly installments over a period of approximately 5 years, with scheduled principal payments of $2.6 million annually through December 2007 increasing to $60.3 million in 2008 and the remaining balance outstanding due in 2009. We may also 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 during 2003 and 2004. Interest rates on the term facility and revolving credit facility are at LIBOR plus 2.25% (4.65% at December 31, 2004).

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 (See Note 1). 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 which could limit our ability to access additional funding under our revolving credit facility 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.

Outstanding debt assumed in connection with the 2001 purchase of property in Largo, Florida utilized by our CONMED Linvatec subsidiary 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"). The principal balances outstanding on the Class A note and Class C note aggregated $8.3 million and $8.2 million, respectively, at December 31, 2004. These loans are secured by our Largo, Florida property.

On November 11, 2004, we completed an offering, in a private placement, of $150.0 million in 2.50% convertible senior subordinated notes due 2024. The Notes represent our subordinated unsecured obligations and are convertible under the following circumstances, as defined in the bond indenture, into a combination of cash and CONMED common stock: when the closing price of our common stock for each of 20 or more consecutive trading days in a period of 30 consecutive trading days exceeds 130% of the applicable conversion price; after any 10 consecutive trading day period in which the average trading price per $1,000 principal amount of the Notes was equal to or less than 97% of the average conversion value of the Notes; if we call a Note for redemption; and based on certain corporate transactions such as if we are party to a consolidation, merger or binding share exchange in which over 50% of our outstanding shares of common stock would be converted into cash, securities or other property, or if another fundamental change (as defined in the bond indenture) occurs. Upon conversion, the holder of each Note will receive the conversion value of the Note payable in cash up to the principal amount of the Note and CONMED common stock for the Note's conversion value in excess of such principal amount. Amounts in excess of the principal amount are at an initial conversion rate, subject to adjustment, of 26.1849 shares per $1,000 principal amount of the Note (which represents an initial conversion price of $38.19 per share). The Notes mature on November 15, 2024 and are not redeemable by us prior to November 15, 2011. Holders of the Notes will be able to require that we repurchase some or all of the Notes on November 15, 2011, 2014 and 2019.

We have determined that the Notes contain two embedded derivatives. The embedded derivatives are recorded at fair value in other long-term liabilities and changes in their value are recorded through the consolidated statement of income. The embedded derivatives have a nominal value, and it is our belief that any change in their fair value would not have a material adverse effect on our business, financial condition or results of operations.

The Notes offering resulted in gross proceeds of $150.0 million, less $5.8 million in initial purchaser's discount and other offering related payments which are being amortized to interest expense

over a 7 year period through November 15, 2011 (the earliest date at which we may be required to repurchase some or all of the Notes). Net proceeds from the offering and cash on hand were used to repay $82.2 million on the term loan and a further $45.0 million in borrowings then outstanding on the revolving credit facility under our senior credit agreement. (The revolving credit facility borrowings were used to finance a portion of the Bard Endoscopic Technologies acquisition—See Note 2). Additionally, in conjunction with the Notes offering, we repurchased $30.0 million of our common stock in privately negotiated transactions. As a result of the $82.2 million prepayment on the term loan, we recorded $0.8 million in losses on the early extinguishment of debt related to the write-off of unamortized deferred financing fees.

The scheduled maturities of long-term debt outstanding at December 31, 2004 are as follows:

2005	$ 4,037
2006	4,208
2007	4,393
2008	62,342
2009	61,770
Thereafter	157,772

Note 7 — Income Taxes

The provision for income taxes for the years ended December 31, 2002, 2003 and 2004 consists of the following:

	2002	2003	2004
Current tax expense:			
Federal	$ 7,251	$ 5,486	$ 9,138
State	540	665	975
Foreign	755	1,061	1,683
	8,546	7,212	11,796
Deferred income tax expense	10,664	13,715	4,301
Provision for income taxes	$ 19,210	$ 20,927	$ 16,097

A reconciliation between income taxes computed at the statutory federal rate and the provision for income taxes for the years ended December 31, 2002, 2003 and 2004 follows:

	2002	2003	2004
Tax provision at statutory rate based on income before income taxes	35.00%	35.00%	35.00%
Extraterritorial income exclusion	(1.78)	(2.36)	(5.30)
State income taxes	.66	.90	2.75
Nondeductible intangible amortization	.17	.17	.18
Nondeductible write-off of purchased in-process research and development assets	—	5.22	—
Other nondeductible permanent differences	.40	.51	.36
Other, net	1.55	.04	(.51)
	36.00%	39.48%	32.48%

The tax effects of the significant temporary differences which comprise the deferred tax assets and liabilities at December 31, 2003 and 2004 are as follows:

	2003	2004
Assets:		
Inventory	$ 8,948	$ 10,791
Net operating losses of acquired subsidiaries	11,025	8,025
Deferred compensation	1,361	1,602
Accounts receivable	262	509
Additional minimum pension liability	—	5,630
Other	2,390	2,024
Valuation allowance	(8,462)	(5,887)
	15,524	22,694
Liabilities:		
Goodwill and intangible assets	43,695	51,707
Depreciation	5,721	6,412
Employee benefits	1,980	1,530
State taxes	—	745
Interest rate swap	83	—
	51,479	60,394
Net liability	$ (35,955)	$ (37,700)

Earnings before income taxes consists of the following U.S. and foreign income:

	2002	2003	2004
U.S. income	$ 51,198	$ 49,275	$ 45,876
Foreign income	2,163	3,734	3,686
Total income	$ 53,361	$ 53,009	$ 49,562

The net operating loss carryforwards of acquired subsidiaries begin to expire in 2008. 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. Any subsequently recognized tax benefits associated with the valuation allowance would be allocated to reduce goodwill.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the "Act"). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. In return, the Act also provides for a two-year phase-out of the existing extra-territorial income exclusion (ETI) for foreign sales that was viewed to be inconsistent with international trade protocols by the European Union.

Under the guidance in FASB Staff Position No. FAS 109-1, Application of FASB Statement No.109, "Accounting for Income Taxes," to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004, the deduction will be treated as a "special deduction" as described in FASB Statement No.109. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on our tax return.

The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and, as of today, uncertainty remains as to how to interpret numerous provisions in the Act. We are not yet in a position to decide on whether, and to what extent, we might repatriate foreign earnings that have not yet been remitted to the U.S. We have not provided for federal income taxes on the undistributed earnings of our foreign operations as it has been

our intention to permanently reinvest undistributed earnings (approximately $11.1 million as of December 31, 2004).

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, 2003 and 2004, no preferred stock had been issued.

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 from the offering approximated $66.1 million and were used to reduce indebtedness under our credit facility.

In November 2004, we repurchased 1.1 million shares of our common stock in privately negotiated transactions at an aggregate cost of $30 million. This repurchase coincided with our 2.50% convertible senior subordinated notes transaction (See Note 6).

On February 15, 2005, our Board of Directors authorized a share repurchase program under which we may repurchase up to $50.0 million of our common stock, although no more than $25.0 million may be purchased in any calendar year. The repurchase program calls for shares to be purchased in the open market or in private transactions from time to time. We may suspend or discontinue the share repurchase program at any time.

We have reserved 6.7 million shares of common stock for issuance to employees and directors under three stock option plans (the "Plans") of which approximately 696,000 shares remain available for grant at December 31, 2004. In May 2004, the total number of shares available for issuance to employees and directors under the Plans was increased by 1.0 million shares. 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, 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
Granted	659	25.03
Forfeited	(152)	19.16
Exercised	(940)	15.28
Outstanding at December 31, 2004	3,561	$ 19.45
Exercisable:		
December 31, 2002	1,875	$ 15.55
December 31, 2003	2,590	17.19
December 31, 2004	2,435	18.90

Range of Exercise Prices	Stock Options Outstanding at Dec. 31 2004	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Stock Options Exercisable at Dec. 31 2004	Weighted Average Exercise Price
$5.89 to $8.84	5	0.4	$ 8.28	5	$ 8.28
$8.84 to $11.78	69	4.4	9.90	51	10.04
$11.78 to $14.73	566	5.5	14.23	465	14.20
$14.73 to $17.67	693	4.6	16.26	564	16.36
$17.67 to $20.62	974	6.5	18.90	661	19.11
$20.62 to $23.56	383	7.6	21.80	148	21.72
$23.56 to $26.50	795	8.6	25.45	541	25.48
$26.50 to $29.50	76	9.2	29.45	—	—
Total	3,561			2,435	

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 employees with 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 2004, we issued approximately 55,000 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 five principal operating units, CONMED Endoscopic Technologies, CONMED EndoSurgery, CONMED Electrosurgery, CONMED Linvatec and CONMED Patient Care. 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 and makes resource allocation decisions for the entire company. All five 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 grouped 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:

	2002	2003	2004
Arthroscopy	$162,532	$182,061	$ 204,887
Powered Surgical Instruments	114,302	122,031	128,572
Electrosurgery	69,674	77,337	85,912
Patient Care	69,753	69,937	75,879
EndoSurgery	36,801	45,764	47,400
Endoscopic Technologies	—	—	15,738
Total	$453,062	$497,130	$ 558,388

The following is net sales information for geographic areas:

	2002	2003	2004
United States	$320,312	$333,473	$ 364,819
Canada	15,980	24,620	27,384
United Kingdom	18,625	19,883	27,120
Japan	18,820	18,265	19,793
All other countries	79,325	100,889	119,272
Total	$453,062	$497,130	$ 558,388

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, 2003 and 2004. No single customer represented over 10% of our consolidated net sales for the years ended December 31, 2002, 2003 and 2004.

Note 10 — Employee Benefit Plans

We sponsor an employee savings plan ("401(k) plan") and a defined benefit pension plan (the "pension plan") covering substantially all our employees. Overall benefit levels provided under the pension plan were reduced effective January 1, 2004 resulting in a reduction in the projected benefit obligation of approximately $6.4 million.

Total employer contributions to the 401(k) plan were $2.0 million, $2.2 million and $1.8 million during the years ended December 31, 2002, 2003 and 2004, respectively.

We use a December 31, measurement date for our pension plan. 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 plan at December 31:

	2003	2004
Accumulated Benefit Obligation	$ 32,044	$ 43,337
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 33,639	$ 38,878
Adjustment for plan amendment	—	(6,352)
Service cost	4,167	3,144
Interest cost	2,419	2,377
Actuarial loss	6,794	13,759
Benefits paid	(8,141)	(2,934)
Projected benefit obligation at end of year	$ 38,878	$ 48,872
Change in plan assets		
Fair value of plan assets at beginning of year	$ 18,169	$ 33,632
Actual gain on plan assets	4,075	2,490
Employer contribution	19,529	—
Benefits paid	(8,141)	(2,934)
Fair value of plan assets at end of year	$ 33,632	$ 33,188
Change in funded status		
Funded status	$ 5,246	$ 15,684
Unrecognized net actuarial loss	(14,634)	(27,461)
Unrecognized transition liability	(48)	(44)
Unrecognized prior service cost	(118)	5,886
Additional minimum pension liability	—	16,084
Accrued (prepaid) pension cost	$ (9,554)	$ 10,149

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

	2003	2004
Accrued pension liability	$ —	$ 10,149
Prepaid pension asset	(9,554)	—
Accumulated other comprehensive income (loss)	—	(16,084)
Net amount recognized	$ (9,554)	$ (5,935)

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

	2003	2004
Discount rate	6.25%	5.75%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%

Additionally, as of December 31, 2004, the Company changed from the 1984 Unisex Pension mortality table to the 1994 Group Annuity Reserving mortality table for purposes of determining expected mortality.

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

	2002	2003	2004
Service cost—benefits earned during the period	$ 3,988	$ 4,167	$ 3,144
Interest cost on projected benefit obligation	2,002	2,419	2,377
Expected return on plan assets	(1,595)	(1,728)	(2,562)
Net amortization and deferral	350	750	660
Settlement loss	—	2,839	—
Net periodic pension cost	$ 4,745	$ 8,447	$ 3,619

During the year-ended December 31, 2003, we recognized settlement losses of $2.8 million. See Note 12 for further discussion.

During the year ended December 31, 2002, 2003 and 2004, respectively, we recognized a comprehensive loss of $4.0 million, net of income taxes, comprehensive income of $5.1 million, net of income taxes, and a comprehensive loss of $10.5 million, net of income taxes, as a result of changes 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:

	2002	2003	2004
Discount rate	7.00%	6.75%	6.25%
Expected return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	3.00%	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
	2003	2004	2005
Equity securities	41%	48%	55%
Debt securities	49	35	35
Other	10	17	10
Net periodic pension cost	100%	100%	100%

As of December 31, 2004, the Plan held 27,562 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 2005 pension plan funding is not expected to exceed $4.5 million.

The following table summarizes the benefits expected to be paid by our pension plan in each of the next five years and in aggregate for the following five years. The expected benefit payments are estimated based on the same assumptions used to measure the Company's projected benefit obligation at December 31, 2004 and reflect the impact of expected future employee service.

2005	$ 2,570
2006	2,841
2007	2,609
2008	2,194
2009	2,909
2010-2014	19,196

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 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, the Company 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. Our claims against Johnson & Johnson are currently in the discovery stage. 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. In addition, the costs associated with pursuing this claim, which approximated $1.3 million in the year ended December 31, 2004, may be material.

Note 12 — Other Expense (Income)

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

	2002	2003	2004
Termination of product offering	$ —	$ —	$ 2,396
Gain on settlement of a contractual dispute, net of legal costs	—	$ (9,000)	—
Pension settlement costs	—	2,839	—
Acquisition-related costs	—	3,244	1,547
Loss on settlement of a patent dispute	2,000	—	—
Other expense (income)	$ 2,000	$ (2,917)	$ 3,943

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. Due to 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. An additional $3.2 million of acquisition and transition-related costs have been

recorded in other expense. The $3.2 million of costs recorded in other expense consist 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 similar costs related to the Bionx acquisition completed in the first quarter of 2003.

During 2004, we elected to terminate our surgical lights product line and we instituted a customer replacement program whereby all currently installed surgical lights will be replaced by CONMED. The entire cost of the replacement program, including the write-off of the remaining surgical lights inventory, purchase of new surgical lights from an alternative supplier and installation costs are expected to approximate $4.0 million. During 2004, we recorded a charge of $2.4 million for the write-off of surgical lights inventory and the cost of surgical light replacements performed through December 31, 2004. It is anticipated that the remaining $1.6 million in costs will be incurred in 2005 as the replacement program is completed.

During 2004, we incurred $1.5 million of acquisition-related charges associated with the Bard Endoscopic Technologies acquisition which have been recorded in other expense. These expenses principally consist of severance and other transition related charges.

Note 13 — Guarantees

We provide warranties on certain of our products at the time of sale. The standard warranty period for our capital and reusable equipment is generally 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.

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

	2002	2003	2004
Balance as of January 1,	$ 2,909	$ 3,213	$ 3,588
Provision for warranties	4,287	4,209	3,961
Claims made	(3,983)	(3,934)	(4,025)
Warranties acquired	—	100	—
Balance as of December 31,	$ 3,213	$ 3,588	$ 3,524

Note 14 — New Accounting Pronouncements

In December 2004, the FASB issued SFAS No.123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires that all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123, no longer will be an alternative to financial statement recognition. We are required to adopt SFAS 123R in the third quarter of 2005. Under SFAS 123R, we must determine the appropriate fair value model to be used in valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. Upon adoption, we may choose from two transition methods: the modified-prospective transition approach or the modified-retroactive transition approach. Under the modified-prospective transition approach we would be required to recognize compensation cost for awards that were granted prior to, but not vested as of the date of adoption. Prior periods remain unchanged and pro forma disclosures previously required by SFAS No. 123 continue to be required. Under the modified-retrospective transition method, we would be required to restate prior periods by recognizing compensation cost in the amounts previously reported in the pro forma disclosure under SFAS No. 123. Under this method, we would be permitted to apply this presentation to all periods presented or to the start of the fiscal year in which SFAS No. 123R is adopted. We would also be required to follow the same guidelines as in the modified-prospective transition method for awards granted subsequent to adoption and those that were granted and not yet vested. We are currently evaluating the requirements of SFAS 123R and its impact on our consolidated results of operations and earnings per share. We have not yet determined the method of adoption or the effect of adopting SFAS 123R, and it has not been determined whether the adoption will result in amounts similar to the current pro forma disclosures under SFAS 123.

In December 2004, the FASB issued Staff Position ("FSP") No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"). This position provides guidance under FASB Statement No. 109 ("SFAS 109"), "Accounting for Income Taxes," with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. The Jobs Act was enacted on October 22, 2004. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. See additional discussion in Note 7.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions" ("SFAS 153"). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for fiscal periods beginning after June 15, 2005. We have considered SFAS 153 and have determined that this pronouncement is not applicable to our current operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs – An Amendment of ARB Opinion No. 43, Chapter 4" ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. We have considered SFAS 151 and have determined that this pronouncement will not materially impact our consolidated results of operations.

In November 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions – An amendment of SFAS No. 66 and 67." This statement amends SFAS No. 66, "Accounting for Sales of Real Estate," to reference the financial accounting and reporting guidance for real estate time-sharing transactions which is provided in AICPA Statement of Position ("SOP") 04-2, "Accounting for Real Estate Time-Sharing Transactions." This statement also amends SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects," to state the guidance for (a) incidental costs and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those costs is subject to guidance in SOP 04-2. SFAS 152 is effective for fiscal years beginning after June 15, 2005. We have considered SFAS 152 and have determined that this pronouncement is not applicable to our current operations.

Note 15 — Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data for 2003 and 2004 are as follows:

	Three Months Ended			
	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

	March	June	September	December
2004				
Net sales	$ 133,964	$ 130,912	$ 132,289	$ 161,223
Gross profit	70,359	68,714	67,487	80,332
Net income	12,039	12,292	1,699	7,435
EPS				
Basic	$ .41	$ .41	$ .06	$ .25
Diluted	.40	.41	.06	.25

Unusual Items Included In Selected Quarterly Financial Data:

2003

First quarter

During 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 associated with the Bionx acquisition – See Note 2. The first quarter effective tax rate was increased from 36.0% to 55.1% to reflect the nondeductibility of the $7.9 million charge.

During 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.

Second quarter

During 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.

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

Third quarter

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

Fourth quarter

During 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.

2004

Third quarter

During the third quarter of 2004, we recorded a charge in the amount of $13.7 million related to the write-off of the estimated purchase in-process research and development associated with the Bard Endoscopic Technologies acquisition – See Note 2.

During the third quarter of 2004, we recorded a charge in the amount of $0.9 million in other expense for costs related to the Bard Endoscopic Technologies acquisition – See Note 12.

Fourth quarter

During the fourth quarter of 2004, we recorded a charge in the amount of $2.7 million related to the write-off of the finalized purchased in-process research and development associated with the Bard Endoscopic Technologies acquisition – See Note 2.

During the fourth quarter of 2004, we recorded $2.3 million of Bard Endoscopic Technologies acquisition-related charges in cost of sales – See Note 2.

During the fourth quarter of 2004, we recorded a charge of $2.4 million related to our termination of our surgical lights product line and $0.7 million of acquisition-related costs associated with the Bard Endoscopic Technologies acquisition to other expense – See Note 12.

During the fourth quarter of 2004, we recorded losses on the early extinguishment of debt of $0.8 million – See Note 6.

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Chairman of the Board and CEO

Joseph J. Corasanti, Esq.
President and COO

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Management Consultant and Retired Financial Executive, Chicago Pneumatic Tool Company
Audit Committee Chair
Compensation Committee
Nominating and Corporate Governance Committee

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Partner, Dermody, Burke and Browne, CPA, PLLC
Audit Committee

Stephen M. Mandia
President, CEO of East Coast Olive Oil, Inc.
Audit Committee
Compensation Committee
Nominating and Corporate Governance Committee

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Retired Chairman of the Board, Oneida Ltd.
Corporate Governance Committee
Audit Committee
Compensation Committee Chair

Stuart J. Schwartz, MD
Retired Physician
Nominating and Corporate Governance Committee

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Chairman of the Board and CEO

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President – CONMED Electrosurgery

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Vice President – Finance and Chief Financial Officer

John J. Stotts
Vice President – CONMED Patient Care

Frank R. Williams
Vice President – CONMED EndoSurgery

Dennis M. Werger
Vice President, General Manager – CONMED Endoscopic Technologies

Gerald G. Woodard
President – CONMED Linvatec

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
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The NASDAQ Stock Market® Stock Symbol: CNMD

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Operating Subsidiaries
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CONMED Integrated Systems
CONMED Integrated Systems Canada
CONMED Linvatec
CONMED Linvatec Australia
CONMED Linvatec Austria
CONMED Linvatec Belgium
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