2005

| IM3300 | Super Revo® | *M*Power™ | PowerPro® | GoldLine™ | System 5000™ | Cleartrace® | PRO2® | Reflex® | Universal Plus™ | FXWire™ | SureShot®

CONMED® CORPORATION

# 2005 Annual Report

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2005

# LETTER TO SHAREHOLDERS
## The Year in Review

*Eugene R. Corasanti*

*Joseph J. Corasanti*

Dear Shareholders,

March 31, 2006

CONMED's revenues reached a record $617.0 million in 2005, an increase of 10.5% over 2004. Most of this growth occurred in the first six months of the year with overall sales increasing 18.6% through June 2005. Despite reporting these record sales, our expectations for the Company in 2005 were not achieved. Our year-end 2005 results fell short of goals in all categories: sales, net income and earnings per share.

Factors contributing to the Company's poor results included:

- Slower sales growth versus expectations in all product lines except for Endosurgery, where strong international growth compensated for flat domestic sales.

- Higher cost of goods sold, impacted by higher raw material cost and higher overhead expenses related to reduced volume and expanded and improved quality and regulatory initiatives.

We believe that the Company's lower than expected sales growth in 2005 resulted from two temporary problems and conditions that largely impacted the Orthopedic side of our business, which represents 55% of total sales. CONMED experienced several recalls in 2005 which were a significant distraction for our Orthopedic sales force of 210 sales representatives. We also believe that the market growth for Arthroscopy and Powered Surgical Instruments slowed in 2005 due to the hurricanes in the southeastern part of our country and a slower rate of growth for elective sports medicine types of surgical procedures. We do not expect these conditions to persist throughout 2006. Accordingly, we have forecasted improved organic sales growth for the Company in 2006 over 2005.

Compounding our sales weakness, we experienced the effects of higher manufacturing costs in the second half of 2005. Substantial cost increases occurred in purchases of petroleum-based raw materials, such as plastics and resins. Approximately 75% of our products are single-use disposables, and plastic raw materials are one of our major components. Our costs were further impacted by increased transportation costs and unfavorable manufacturing overhead variances resulting from lower than anticipated sales volumes in 2005. Further, we strategically decided to improve and expand our quality and regulatory structure to ensure our

next phase of growth. This required substantial headcount increases in our manufacturing facilities. Due to long-term pricing contracts with many of our customers, we could not quickly offset these costs through price increases and, as a result, our profit margins were squeezed during 2005.

In 2005, we also added a new corporate quality oversight function to improve regulatory compliance in all of our factories. Our expectation is that this centralized approach to quality and regulatory compliance will allow our Company to grow consistently and profitably by improving customer satisfaction, increasing manufacturing efficiency and reducing scrap.

As communicated throughout the year, we have continued to expand our expenditures in research and development and we are confident that we will see the fruits of this investment in the future.

As a result of these research and development activities, we launched a series of new products in 2005. In the orthopedic field, we introduced seven new products at the American Academy of Orthopaedic Surgeons meeting. Among these was the CrossPin System for ACL reconstruction, which features improved pull-out strength as a result of the Company's proprietary Self-Reinforced bioabsorbable technology. We also introduced the Advantage® Turbo Handpiece, which combines the best features of our current line of shaver handpieces with lighter weight, higher speed and increased torque, and the ThRevo™, the first triple-loaded suture anchor on the market.

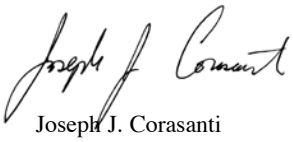
In our pulse oximetry line, we introduced the PRO2®, which relies on patented reflectance technology to obtain blood oxygenation readings. This proprietary technology is able to obtain reliable measurements from patients whose conditions make it impossible for the prior technology to deliver this critical information. For example, burn patients and patients experiencing trauma typically are unable to generate reliable readings on standard pulse oximetry products. Not surprisingly, this exciting product has created very positive responses in field trials. We have placed the product in some hospitals for trials where the product has worked so well, that the hospitals were reluctant to return the evaluation units to us. While our sales of the PRO2 are only now ramping up, we believe this technology has a bright outlook.

We look forward to the future. Our business model has proven to be solid: growth through servicing customers with top-notch products and market-leading technologies. Our management team has never been as strong as it is today. We continue to adhere to the strategy which has brought us to where we are today by focusing on achieving both internal and acquisition growth.

In 2006, Management intends to emphasize improving the Company's profit margins. We will be increasing pricing, where prudent, and working to improve manufacturing and operating efficiencies at all facilities. Through these actions in 2006, we will be better positioned for improved profitability in 2007.

As always, we thank our dedicated employees around the world and our shareholders for your continued trust and support.

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

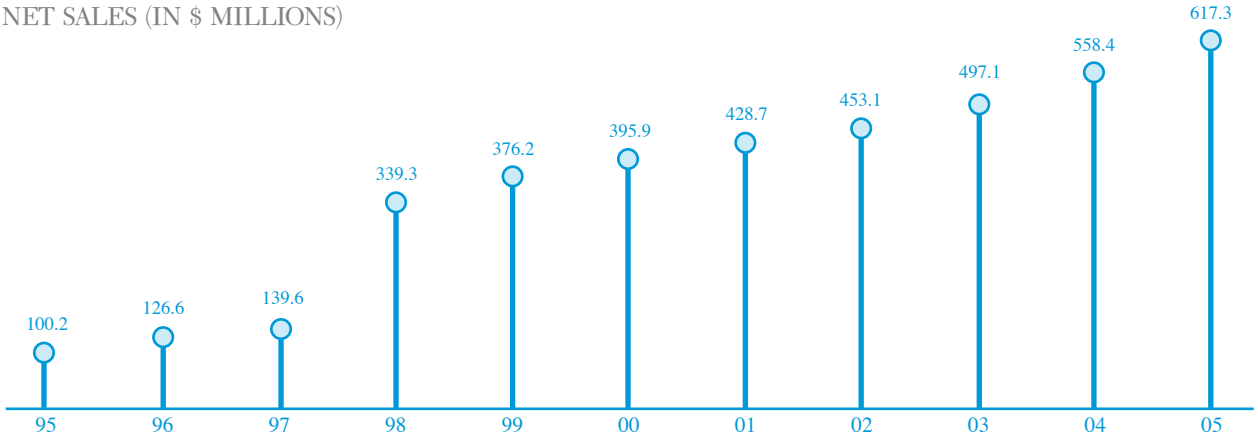


Joseph J. Corasanti
President,
Chief Operating Officer

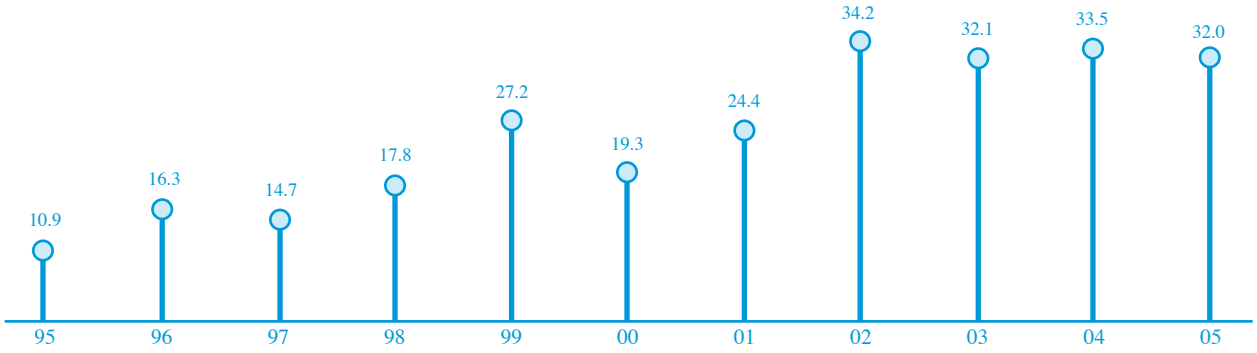
YEARLY GROWTH...

# 2005 FINANCIAL HIGHLIGHTS

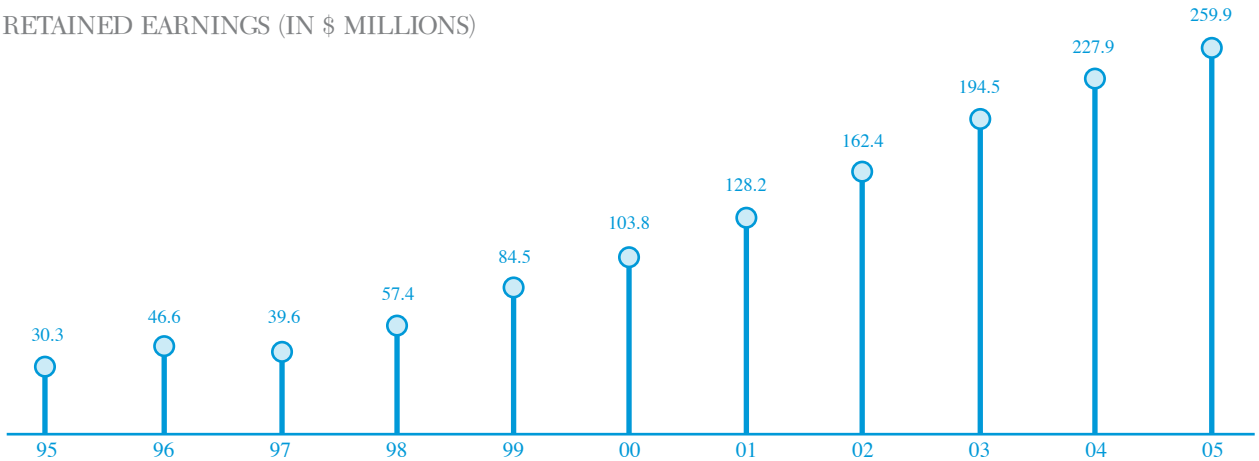
NET SALES (IN $ MILLIONS)




NET INCOME[1] (IN $ MILLIONS)




RETAINED EARNINGS (IN $ MILLIONS)




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

# ...Everyday Triumphs.

*Dr. John Twomey showing the PRO2 reflectance pulse oximeter. The unique flat sensor design allows it to be placed on core body locations such as the forehead and back.*

In December, 2005 a tragic house fire badly injured a 5 year old Minnesota boy. Burned over 95% of his body, he was taken to the burn center at Hennepin County Medical Center to receive state-of-the art burn care.

Treating and monitoring burn patients can be especially challenging, especially when so much burned tissue is involved, destroying typical sites for conventional monitoring.

Pulse oximetry is an important monitoring technology used to measure blood oxygen levels in many hospitalized patients. It is so widely used that it is considered by clinicians to be a "5th vital sign", along with the four other vital signs: temperature, heart rate, blood pressure and respiration rate. Conventional pulse oximeters use two light emitters and a separate photodetector that are placed on each side of the patient's finger, toe or ear. They work by shining red and infrared light through the tissue and measuring the amount of light that is absorbed by oxygenated hemoglobin in arterial red blood cells. While this conventional "transmission" oximetry technology works in most cases, it is frequently difficult to get measurements from these peripheral sites, particularly in critical patients when it is needed the most.

In the case of the 5 year old burn patient, there were no uninvolved fingers or toes that could be used to place the probes. His ears were also deeply burned and could not be used.

"We virtually had no available site to monitor this patient, other than the top of his head. Obviously, we couldn't use conventional oximetry probes because they are limited mostly to peripheral digits", explains Dr. John A. Twomey, Director of the burn center at Hennepin County Medical Center in Minneapolis. "The CONMED PRO2® pulse oximeter is the only device that we could use for this patient. We were able to continuously and reliably monitor $SpO_2$ and pulse rate from the top of the forehead and scalp."

CONMED's newly introduced PRO2 pulse oximeter utilizes a different approach to measure blood oxygen. Rather than shining light through a finger, PRO2 utilizes a flat sensor about the size of a nickel that measures light reflected from tissue. This uniquely designed reflectance technology allows an individual sensor to be placed on a flat core body surface such as the forehead and back. It is the only pulse oximeter that is cleared by the FDA for use on both the forehead and back.

Burn patients are not the only patients that can benefit from CONMED's reflectance technology. "Many patients have compromised peripheral circulation that present problems when trying to measure $SpO_2$ using the conventional approach", according to Dr. Twomey. "Hypotensive patients and those in shock, patients with peripheral vascular disease, ones with thick digits or patients suffering from hypothermia after trauma or surgery can be problematic for conventional finger type probes." In addition, measuring from core body locations can detect critical oxygen desaturation events up to a minute and a half faster compared to sensors placed on the digits. "PRO2 is an important addition to our armamentarium for monitoring critical patients" explains Dr. Twomey.

As for the "miracle" 5 year old at Hennepin County Burn Center, he is making a slow but remarkable recovery thanks in part to advanced medical technologies such as CONMED's PRO2 reflectance pulse oximeter.

## 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 February 13, 2006, there were 1,138 registered holders of our common stock and approximately 7,661 accounts held in "street name."

The following table sets forth quarterly high and low sales prices for the years ended December 31, 2004 and 2005, as reported by the NASDAQ Stock Market.

| | 2004 | | 2005 | |
|---|---|---|---|---|
| Period | High | Low | High | Low |
| First Quarter | $ 29.54 | $ 23.72 | $ 30.16 | $ 26.69 |
| Second Quarter | 30.89 | 24.00 | 32.58 | 29.27 |
| Third Quarter | 27.92 | 20.73 | 31.81 | 27.44 |
| Fourth Quarter | 30.02 | 25.47 | 27.85 | 22.55 |

We did not pay cash dividends on our common stock during 2004 or 2005 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, | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| **Statements of Operations Data[1]:** | | | | | |
| Net sales | $ 428,722 | $ 453,062 | $ 497,130 | $ 558,388 | $ 617,305 |
| Income from operations | 68,958 | 79,349 | 79,955 | 63,161 | 63,748 |
| Net income[2] | 24,406 | 34,151 | 32,082 | 33,465 | 31,994 |
| **Earnings per share:** | | | | | |
| Basic | $ 1.02 | $ 1.25 | $ 1.11 | $ 1.13 | $ 1.09 |
| Basic adjusted for SFAS 142[2] | 1.25 | 1.25 | 1.11 | 1.13 | 1.09 |
| Diluted | 1.00 | 1.23 | 1.10 | 1.11 | 1.08 |
| Diluted adjusted for SFAS 142[2] | 1.23 | 1.23 | 1.10 | 1.11 | 1.08 |
| **Weighted average number of common shares in calculating:** | | | | | |
| Basic earnings per share | 24,045 | 27,337 | 28,930 | 29,523 | 29,300 |
| Diluted earnings per share | 24,401 | 27,827 | 29,256 | 30,105 | 29,736 |
| **Other Financial Data:** | | | | | |
| Depreciation and amortization | $ 30,148 | $ 22,370 | $ 24,854 | $ 26,868 | $ 30,786 |
| Capital expenditures | 14,443 | 13,384 | 9,309 | 12,419 | 16,242 |
| **Balance Sheet Data (at period end):** | | | | | |
| Cash and cash equivalents | $ 1,402 | $ 5,626 | $ 5,986 | $ 4,189 | $ 3,454 |
| Total assets | 701,608 | 742,140 | 805,058 | 872,825 | 903,783 |
| Long-term debt (including current portion) | 335,929 | 257,387 | 264,591 | 294,522 | 306,851 |
| Total shareholders' equity | 283,634 | 386,939 | 433,490 | 447,983 | 453,006 |

(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) 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 $30.1 million in 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 medical technology company with an emphasis on surgical devices and equipment for minimally invasive procedures and monitoring. The Company's products serve the clinical areas of arthroscopy, powered surgical instruments, electrosurgery, cardiac monitoring disposables, endosurgery and endoscopic technologies. They are used by surgeons and physicians in a variety of specialties including orthopedics, general surgery, gynecology, neurosurgery, and gastroenterology. These product lines and the percentage of consolidated revenues associated with each, are as follows:

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Arthroscopy | 37% | 37% | 34% |
| Powered Surgical Instruments | 25 | 23 | 22 |
| Electrosurgery | 15 | 15 | 14 |
| Patient Care | 14 | 14 | 12 |
| Endosurgery | 9 | 8 | 8 |
| Endoscopic Technologies | — | 3 | 10 |
| 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. Our capital equipment offerings also facilitate the ongoing sale of related disposable products and accessories, thus providing us with a recurring revenue stream. We manufacture substantially all of our products in facilities located in the United States, Mexico and Finland. We market our products both domestically and internationally directly to customers and through distributors. International sales approximated 33%, 35% and 37% in 2003, 2004 and 2005, respectively.

## Business Environment and Opportunities

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 in our industry. We believe that with our broad product offering of high quality surgical and patient care products, we can capitalize on this growth for the benefit of the Company and our shareholders.

In order to further our growth prospects, we have historically used strategic business acquisitions and exclusive distribution relationships, including the following, to continue to diversify our product offerings, increase our market share and realize economies of scale.

- In March 2003, we made important progress in broadening our offering of bioabsorbable implants within 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 expanded our Patient Care offerings through 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.
- In September 2004, we added an entirely new product line with the acquisition of certain assets of the Endoscopic Technologies Division of C.R. Bard, Inc. (the "Bard Endoscopic Technologies acquisition" - See Note 2 to the Consolidated Financial Statements). The Endoscopic Technologies product line consists of various disposable products used by gastroenterologists to diagnose and treat diseases of the digestive tract. These products also complement our existing Electrosurgery product offerings.

We have a variety of research and development initiatives focused in each of our principal product lines. Among the most significant of these efforts is the 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. Also of significance are our research and development efforts in the area of tissue-sealing for electrosurgery and high definition minimally-invasive surgery camera systems for arthroscopy.

Continued innovation and commercialization of new proprietary products and processes are essential elements of our long-term growth strategy. In March 2006, we plan to unveil several new products at the American Academy of Orthopedic Surgeons Annual Meeting which will enhance our arthroscopy and powered instrument product offerings. Additionally, we recently introduced our PRO2® product which permits non-invasive analysis of blood oxygen levels in clinical situations which previously could not be accomplished using traditional non-invasive techniques.

## Business Challenges

During the second half of 2005 we experienced lower than expected sales, as a result, we believe, of lower than anticipated surgical procedures. In addition, we experienced significant cost increases with respect to petroleum-based raw materials such as plastic resins and polymers used in the production of many of our products, particularly our disposable products, as a result of the increased cost of oil following Hurricane Katrina. We also experienced significant increases in in-bound and out-bound freight costs. During 2006, we believe the number of surgical procedures will return to more normal levels resulting in increased sales of our products. In addition, we plan to implement limited price increases to offset the manufacturing cost increases as a result of the increases in the price of oil.

Our facilities are subject to periodic inspection by the United States Food and Drug Administration ("FDA") for, among other things, conformance to Quality System Regulation and Current Good Manufacturing Practice ("CGMP") requirements. Following an inspection, the FDA typically provides its observations, if any, in the form of a Form 483 (Notice of Inspectional Observations) with specific observations concerning potential violation of regulations. In December 2004, the FDA initiated an inspection of our Largo, Florida manufacturing facility. Following the inspection, the FDA issued to us a Form 483 notice which included observations related to our corrective and preventative action procedures for nonconforming products and other quality problems. Although we responded to the Form 483 to address and correct the deficiencies, the FDA further issued a warning letter in June 2005 relating to these observations. We subsequently responded to the FDA with a plan of the corrective actions that we have taken or proposed to take. In that response, we committed to further developing and implementing, in a timely manner, the principles and strategies of a Company-wide systems-based quality management for improved CGMP compliance, operational performance and efficiencies. We consider

the receipt of a warning letter to be an important regulatory event. Accordingly, we are undertaking corrective actions that we believe will involve significant additional costs for the Company. However, even with our efforts to implement a Company-wide quality systems initiative, there can be no assurance that the actions undertaken by the Company will ensure that we will not receive an additional Form 483 or warning letter, or other regulatory actions which may include consent decrees or fines.

We remain in litigation against Johnson & Johnson and several of its subsidiaries, including Ethicon, Inc. for violation of federal and state antitrust laws. The lawsuit claims that Johnson & Johnson engaged in illegal and anticompetitive conduct with respect to sales of product used in endoscopic surgery, resulting in higher prices to consumers and the exclusion of competition. We have sought relief which includes an injunction restraining Johnson & Johnson from continuing its anticompetitive practice as well as receiving the maximum amount of damages allowed by law. While we believe that our claims are well-grounded in fact and law, there can be no assurance that we will be successful in our claim. In addition, the costs associated with pursuing this claim have been substantial. See Note 11 to the Consolidated Financial Statements.

## 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 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 under our stated shipping terms. 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.
- Our terms of sale to customers generally do not include any obligations to perform future services. Limited warranties are 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 $8.3 million, $9.3 million and $11.2 million for 2003, 2004 and 2005, 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 $1.5 million at December 31, 2005 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. 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 $335.7 million and other intangible assets of $191.4 million as of December 31, 2005.

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. See Note 2 to the Consolidated Financial Statements for discussion on recent acquisitions.

## 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 an immediate 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 5.75% in 2005 to 5.55% in 2006. This change in assumption will result in higher pension expense during 2006. This rate was determined by using the Citigroup Pension Liability Index rate which, we believe, is a reasonable indicator of our plan's future payment stream.

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, we 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 resulted in higher pension expense in 2005.

Based on these and other factors, 2006 pension expense is estimated at approximately $6.9 million as compared to $5.6 million in 2005. Actual expense may vary significantly from this estimate.

We do not expect there to be any required contributions to our pension plan in 2006. 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 $21.7 million at December 31, 2005. 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, | 2003 | 2004 | 2005 |
|---|---|---|---|
| Net sales | 100.0% | 100.0% | 100.0% |
| Cost of sales | 47.8 | 48.6 | 49.3 |
| Gross margin | 52.2 | 51.4 | 50.7 |
| Selling and administrative expense | 31.7 | 32.8 | 35.1 |
| Research and development expense | 3.4 | 3.6 | 4.1 |
| Write-off of purchased in-process research and development assets | 1.7 | 2.9 | — |
| Other expense (income), net | (0.6) | 0.8 | 1.0 |
| Income from operations | 16.0 | 11.3 | 10.5 |
| Loss on early extinguishment of debt | 1.6 | 0.1 | — |
| Interest expense | 3.7 | 2.3 | 2.6 |
| Income before income taxes | 10.7 | 8.9 | 7.9 |
| Provision for income taxes | 4.2 | 2.9 | 2.7 |
| Net income | 6.5% | 6.0% | 5.2% |

## 2005 Compared to 2004

Sales for 2005 were $617.3 million, an increase of $58.9 million (10.5%) compared to sales of $558.4 million in 2004. The Bard Endoscopic Technologies acquisition accounted for $43.2 million of the increase and favorable foreign currency exchange rates accounted for $3.6 million. The Bard Endoscopic Technologies acquisition is described more fully in Note 2 to the Consolidated Financial Statements.

- Arthroscopy sales increased $6.5 million (3.2%) in 2005 to $211.4 million from $204.9 million in 2004, principally as a result of increased sales of our procedure-specific, resection and video imaging products for arthroscopy and general surgery, and our integrated operating room systems and equipment.
- Powered surgical instrument sales increased $3.4 million (2.6%) in 2005 to $132.0 million from $128.6 million in 2004, principally as a result of increased sales of our PowerPro® line of large bone powered instrument products and our PowerPro Max® line of small bone powered instrument products.
- Patient care sales remained flat at $75.9 million in 2005 and 2004 as increased sales of pulse oximetry products and defibrillator pads offset decreased sales of ECG electrodes.
- Electrosurgery sales increased $2.6 million (3.0%) in 2005 to $88.5 million from $85.9 million in 2004, principally as a result of increased sales of our System 5000™ electrosurgical generator and Ultraclean™ active electrodes.
- Endosurgery sales increased $3.2 million (6.8%) in 2005 to $50.6 million from $47.4 million in 2004, as a result of increased sales of our skin staplers, suction/irrigation products and various laparoscopic instrument products and systems.
- Endoscopic Technologies sales increased $43.2 million (275.2%) in 2005 to $58.9 million from $15.7 million in 2004, as a result of the inclusion of a full year of sales in 2005 related to the Bard Endoscopic Technologies acquisition.

Cost of sales increased to $304.3 million in 2005 compared to $271.5 million in 2004, primarily as a result of increased sales volumes in each of our principal product lines as described above. Gross profit margins decreased 0.7 percentage points from 51.4% in 2004 to 50.7% in 2005 primarily as a result of significant cost increases with respect to petroleum-based raw materials such as plastic resins and polymers used in the production of many of our products and higher spending related to quality assurance. These higher costs (approximately 1.2 percentage points) more than offset the improvement in margins we experienced as a result of the addition of the higher margin products acquired in the Bard Endoscopic Technologies acquisition (0.5 percentage points).

During 2005 and 2004, respectively, we incurred $7.8 million and $4.4 million of acquisition-related expenses which have been included in cost of sales. The $7.8 million of acquisition-related charges included in costs of sales in 2005, consists of the following: $0.5 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 $7.3 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 2006, we expect to continue to experience higher incremental costs until manufacturing of the acquired products is fully integrated into our facilities and we have sold all of the higher cost inventory purchased from C.R. Bard.

Selling and administrative expense increased to $216.7 million in 2005 as compared to $183.2 million in 2004. Selling and administrative expense as a percentage of net sales increased to 35.1% in 2005 from 32.8% in 2004. This increase of 2.3 percentage points is primarily attributable to increased administrative expenses associated with higher distribution costs (0.4 percentage points) due in part to higher petroleum prices; higher pension costs (0.2 percentage points) due primarily as a result of changes in actuarial assumptions (see "Pension Plan" section of "Critical Accounting Estimates" above); increased spending on corporate quality systems and management (0.2 percentage points) to ensure we continue to maintain appropriate regulatory compliance; increased selling and marketing costs associated with the Endoscopic Technologies business (0.3 percentage points); other increases in selling and administrative costs (1.2 percentage points) including the Johnson & Johnson litigation (see Note 11 to the Consolidated Condensed Financial Statements).

Research and development expense was $25.5 million in 2005 compared to $20.2 million in 2004. As a percentage of net sales, research and development expense increased to 4.1% in 2005 from 3.6% in 2004. 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 ECOM endotracheal cardiac output monitor for our Patient Care business and the addition of the Endoscopic Technologies business in September 2004.

As discussed in Note 2 to the Consolidated Financial Statements, we wrote-off $16.4 million of purchased in-process research and development assets associated with the Bard Endoscopic Technologies acquisition in 2004. This technology is currently in a variety of phases ranging from the concept phase to being introduced in the marketplace.

As discussed in Note 12 to the Consolidated Financial Statements, other expense in 2005 consisted of $1.5 million of expenses associated with the termination of our surgical lights product offering, $4.1 million of acquisition transition and integration expenses related to the Bard Endoscopic Technologies acquisition, $0.7 million in environmental settlement costs and $0.8 million of expense related to the loss on an equity investment. 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.

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 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 2005 was $15.6 million compared to $12.8 million in 2004. The increase in interest expense is primarily a result of higher weighted average borrowings outstanding in 2005 as compared to 2004 and higher weighted average interest rates on our borrowings (4.69% in 2005 as compared to 4.17% in 2004) inclusive of the finance charge on our accounts receivable sale facility. The increase in weighted average interest rates on our borrowing is primarily a result of our increased borrowings against our revolving credit facility coupled with overall increases in interest rates on our variable rate debt.

A provision for income taxes was recorded at an effective rate of 33.6% in 2005 and 32.5% in 2004. The effective rate for 2005 was higher than 2004 because the 2004 effective tax rate reflected an adjustment to the estimated benefit to be realized from the Extraterritorial Income Exclusion tax rules on foreign sales. 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.

### 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 costs 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 incurred as part of the transition period in which we are continuing to purchase the acquired products from C.R. Bard.

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. 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 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 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 was 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.

### 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. We generally attempt to minimize our cash balances on-hand and use available cash to pay down debt or repurchase our common stock.

### Operating cash flows

Our net working capital position was $193.4 million at December 31, 2005. Net cash provided by operating activities was $58.4 million, $74.8 million and $42.4 million for 2003, 2004 and 2005, respectively.

Net cash provided by operating activities declined in 2005 as compared to 2004 and 2003 on similar net income levels primarily because 2004 and 2003 net income included large non-cash acquisition-related in-process research and development charges. Additionally, in 2005 we increased our inventory levels by $33.6 million. The increase in inventories was planned to ensure we have adequate inventories of Endoscopic Technologies product on-hand as we transition the manufacturing to our own facilities from C.R. Bard (see Note 2 to the Consolidated Financial Statements). In addition, in 2005 we increased our inventories in order to ensure adequate stocks in order to avoid backorders and ensure a high level of customer service, particularly in the Endosurgery product lines.

### Investing cash flows

Capital expenditures were $9.3 million, $12.4 million and $16.2 million for 2003, 2004 and 2005, respectively. The continued increase in capital expenditures in 2005 as compared to 2004 and

2003 is primarily due to the ongoing expansion of our manufacturing and distribution capacity as a result of the Bard Endoscopic Technologies acquisition. These capital expenditures represent the ongoing capital investment requirements of our business and are expected to continue at the same approximate rate during 2006.

Payments related to business acquisitions in 2005 totaled $0.4 million and are additional cash consideration paid for a business acquisition as a result of a purchase price adjustment. Investing cash flows in 2004 consisted 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 2005 consisted of the following: $17.0 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); $29.9 million in net repayments under the term loan facility of our senior credit agreement; $43.0 million in borrowings under the revolving credit facility of our senior credit agreement; $0.8 million in net repayments on mortgage notes; $6.1 million net change in cash overdrafts; and the repurchase of 1.8 million shares of our common stock under our Board of Director's authorized stock repurchase program at an aggregate cost of approximately $45.4 million.

Our senior credit agreement consists of a $100.0 million revolving credit facility and a $260.0 million term loan. At December 31, 2005 there was $43.0 million outstanding on the revolving credit facility. The aggregate amount outstanding on the term loan was $98.1 million at December 31, 2005. The revolving credit facility expires in August 2007. The term loan is scheduled to be repaid in quarterly installments over a remaining period of approximately four 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 2005. Interest rates on the term loan are at the London Interbank Offered Rate ("LIBOR") plus 2.25% (6.44% at December 31, 2005). Interest rates on the revolving credit facility are at LIBOR plus 2.25% or an alternative base rate (8.50% at December 31, 2005).

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.

Mortgage notes outstanding in connection with the property and facilities utilized by our CONMED Linvatec subsidiary consist 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 $6.9 million and $8.8 million, respectively, at December 31, 2005. These mortgage notes are secured by the CONMED Linvatec property and facilities.

On November 11 2004, we completed an offering 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 subordinated unsecured obligations and are convertible under certain circumstances, as defined in the bond indenture, into a combination of cash and CONMED common stock. 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.

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.

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. 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.

Our Board of Directors has authorized a share repurchase program under which we may repurchase up to $100.0 million of our common stock, although no more than $50.0 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. During 2005, we repurchased $45.4 million in common stock in order to offset the dilutive effect of the issuance of shares under our employee stock option and employee stock purchase plans. We have financed the repurchases and expect to finance additional repurchases through the proceeds from the issuance of common stock under our stock option plans, from operating cash flow and from available borrowings under our revolving credit facility.

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, 2004 and 2005, the undivided percentage ownership interest in receivables sold by CRC to the purchaser aggregated $49.0 million and $40.0 million, respectively, which has been accounted for as a sale and reflected in the balance sheet as a reduction in accounts receivable. Expenses associated with the sale of accounts receivable, including the purchaser's financing costs to purchase the accounts receivable, were $1.0 million and $1.9 million, in 2004 and 2005, 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 $100.0 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 21, 2005 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, 2005.

| | | Payments Due by Period | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Long-term debt | $306,851 | $ 4,208 | $109,736 | $ 35,272 | $157,635 |
| Purchase obligations | 62,606 | 62,051 | 465 | 90 | — |
| Operating lease obligations | 14,066 | 3,051 | 5,492 | 3,157 | 2,366 |
| Total contractual obligations | $383,523 | $ 69,310 | $115,693 | $ 38,519 | $160,001 |

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 do not expect there to be any required contributions to our pension plan in 2006. See Note 10 to the Consolidated Financial Statements.

## Stock-based Compensation

We have reserved shares of common stock issuance to employees and directors under three shareholder-approved stock option plans. The exercise price on all outstanding options is equal to the quoted fair market value of the stock at the date of grant. Stock options are non-transferable other than on death and generally become exercisable over a five year period from date of grant and expire ten years from date of grant. 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 2005, changes in currency exchange rates increased sales by approximately $3.6 million and income before income taxes by approximately $2.4 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, 2005, we had approximately $141.1 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, 2005. Assuming no repayments other than our 2006 scheduled term loan payments, if market interest rates for similar borrowings average 1.0% more in 2006 than they did in 2005, interest expense would increase, and income before income taxes would decrease by $1.8 million. Comparatively, if market interest rates for similar borrowings average 1.0% less in 2006 than they did in 2005, our interest expense would decrease, and income before income taxes would increase by $1.8 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 availability and cost of materials;
- 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;
- changes in foreign exchange and interest rates;
- 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, 2005. 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, 2005. Management's assessment of the effectiveness of CONMED's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 16.

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 integrated audits of CONMED Corporation's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 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 and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of CONMED Corporation and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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 15, that the Company maintained effective internal control over financial reporting as of December 31, 2005 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, 2005 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Syracuse, New York
March 10, 2006

PRICEWATERHOUSECOOPERS

# CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2005
(In thousands except share and per share amounts)

| | 2004 | 2005 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 4,189 | $ 3,454 |
| Accounts receivable, less allowance for doubtful accounts of $1,235 in 2004 and $1,522 in 2005 | 74,593 | 83,327 |
| Inventories | 127,935 | 152,428 |
| Deferred income taxes | 13,733 | 12,887 |
| Prepaid expenses and other current assets | 2,492 | 3,419 |
| Total current assets | 222,942 | 255,515 |
| Property, plant and equipment, net | 101,465 | 104,224 |
| Goodwill, net | 334,483 | 335,651 |
| Other intangible assets, net | 195,234 | 191,402 |
| Other assets | 18,701 | 16,991 |
| Total assets | $ 872,825 | $ 903,783 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 4,037 | $ 4,208 |
| Accounts payable | 28,913 | 31,084 |
| Accrued compensation and benefits | 12,655 | 12,461 |
| Income taxes payable | 5,870 | 4,706 |
| Accrued interest | 748 | 1,095 |
| Other current liabilities | 10,838 | 8,578 |
| Total current liabilities | 63,061 | 62,132 |
| Long-term debt | 290,485 | 302,643 |
| Deferred income taxes | 51,433 | 62,554 |
| Other long-term liabilities | 19,863 | 23,448 |
| Total liabilities | 424,842 | 450,777 |
| 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; 30,135,835 and 31,137,119, issued in 2004 and 2005, respectively | 301 | 311 |
| Paid-in capital | 256,551 | 278,281 |
| Retained earnings | 227,938 | 259,932 |
| Accumulated other comprehensive income (loss) | (6,399) | (9,736) |
| Less: Treasury stock, at cost; 1,156,500 and 2,944,905 shares in 2004 and 2005, respectively | (30,408) | (75,782) |
| Total shareholders' equity | 447,983 | 453,006 |
| Total liabilities and shareholders' equity | $ 872,825 | $ 903,783 |

*See notes to consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2003, 2004 and 2005
(In thousands except per share amounts)

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Net sales | $ 497,130 | $ 558,388 | $ 617,305 |
| Cost of sales | 237,433 | 271,496 | 304,284 |
| Gross profit | 259,697 | 286,892 | 313,021 |
| Selling and administrative expense | 157,453 | 183,183 | 216,685 |
| Research and development expense | 17,306 | 20,205 | 25,469 |
| Write-off of purchased in-process research and development assets | 7,900 | 16,400 | — |
| Other expense (income) | (2,917) | 3,943 | 7,119 |
| | 179,742 | 223,731 | 249,273 |
| Income from operations | 79,955 | 63,161 | 63,748 |
| Loss on early extinguishment of debt | 8,078 | 825 | — |
| Interest expense | 18,868 | 12,774 | 15,578 |
| Income before income taxes | 53,009 | 49,562 | 48,170 |
| Provision for income taxes | 20,927 | 16,097 | 16,176 |
| Net income | $ 32,082 | $ 33,465 | $ 31,994 |
| **Earnings per share** | | | |
| Basic | $ 1.11 | $ 1.13 | $ 1.09 |
| Diluted | 1.10 | 1.11 | 1.08 |

*See notes to consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2003, 2004 and 2005
(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, 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 |
| Common stock issued under employee plans | 1,001 | 10 | 16,988 | | | | 16,998 |
| Tax benefit arising from common stock issued under employee plans | | | 4,742 | | | | 4,742 |
| Repurchase of common stock | | | | | | (45,374) | (45,374) |
| Comprehensive income: | | | | | | | |
| Foreign currency translation adjustments | | | | | (3,657) | | |
| Minimum pension liability (net of income tax benefit of $172) | | | | | 320 | | |
| Net income | | | | 31,994 | | | |
| Total comprehensive income | | | | | | | 28,657 |
| **Balance at December 31, 2005** | 31,137 | $ 311 | $ 278,281 | $259,932 | $ (9,736) | $ (75,782) | $ 453,006 |

*See notes to consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2003, 2004 and 2005
(In thousands)

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 32,082 | $ 33,465 | $ 31,994 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 10,539 | 10,962 | 12,466 |
| Amortization | 14,315 | 15,906 | 18,320 |
| Deferred income taxes | 13,715 | 4,301 | 10,128 |
| Income tax benefit of stock option exercises | 390 | 3,897 | 4,742 |
| Contributions to pension plans less than (in excess of) net pension cost | (11,082) | 3,619 | 2,062 |
| Write-off of purchased in-process research and development assets | 7,900 | 16,400 | — |
| Write-off of deferred financing costs | 2,181 | 825 | — |
| Loss on sale of equity investment | — | — | 794 |
| Increase (decrease) in cash flows from changes in assets and liabilities, net of effects from acquisitions: | | | |
| Sale of accounts receivable | 7,000 | 5,000 | (9,000) |
| Accounts receivable | (6,405) | (19,144) | 266 |
| Inventories | (3,411) | 1,441 | (33,620) |
| Accounts payable | (4,732) | 4,350 | 8,273 |
| Income taxes payable | 2,188 | (2,532) | 675 |
| Accrued compensation and benefits | (338) | 1,626 | (194) |
| Accrued interest | (3,515) | 469 | 347 |
| Other assets | (3,138) | (3,884) | (4,402) |
| Other liabilities | 694 | (1,861) | (417) |
| | 26,301 | 41,375 | 10,440 |
| Net cash provided by operating activities | 58,383 | 74,840 | 42,434 |
| Cash flows from investing activities: | | | |
| Payments related to business acquisitions, net of cash acquired | (55,079) | (81,645) | (372) |
| Purchases of property, plant and equipment, net | (9,309) | (12,419) | (16,242) |
| Other investing activities | (4,085) | — | — |
| Net cash used in investing activities | (68,473) | (94,064) | (16,614) |
| Cash flows from financing activities: | | | |
| Net proceeds from common stock issued under employee plans | 3,200 | 15,200 | 16,998 |
| Repurchase of common stock | — | (29,989) | (45,374) |
| Redemption of 9.0% senior subordinated notes | (130,000) | — | — |
| Payments on senior credit agreement | (22,000) | (114,937) | (29,917) |
| Proceeds of senior credit agreement | 160,000 | — | 43,000 |
| Payments on mortgage notes | (796) | (5,132) | (754) |
| Proceeds from issuance of 2.5% convertible senior subordinated notes | — | 150,000 | — |
| Payments related to issuance of debt | (1,950) | (5,848) | (185) |
| Net change in cash overdrafts | (373) | 6,209 | (6,102) |
| Net cash provided by (used in) financing activities | 8,081 | 15,503 | (22,334) |
| Effect of exchange rate changes on cash and cash equivalents | 2,369 | 1,924 | (4,221) |
| Net increase (decrease) in cash and cash equivalents | 360 | (1,797) | (735) |
| Cash and cash equivalents at beginning of year | 5,626 | 5,986 | 4,189 |
| Cash and cash equivalents at end of year | $ 5,986 | $ 4,189 | $ 3,454 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | $ 21,698 | $ 12,680 | $ 13,794 |
| Income taxes | 5,507 | 11,994 | 3,921 |

Supplemental disclosures of non-cash investing and financing activities:

As more fully described in Note 2, we assumed $12.1 million and $3.5 million in liabilities in connection with business acquisitions in 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 with an emphasis on surgical devices and equipment for minimally invasive procedures and monitoring. The Company's products serve the clinical areas of arthroscopy, powered surgical instruments, electrosurgery, cardiac monitoring disposables, endosurgery and endoscopic technologies. They are used by surgeons and physicians in a variety of specialties including orthopedics, general surgery, gynecology, neurosurgery, and gastroenterology.

### 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, 2004 and 2005, the undivided percentage ownership interest in receivables sold by CRC to the purchaser aggregated $49.0 million and $40.0 million, respectively, which has been accounted for as a sale and reflected in the balance sheet as a reduction in accounts receivable. Expenses associated with the sale of accounts receivable, including the purchaser's financing costs to purchase the accounts receivable, were $1.0 million and $1.9 million, in 2004 and 2005, 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 21, 2005 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. Because of our history of growth through acquisitions, goodwill and other intangible assets comprise a substantial portion (58.6% at December 31, 2005) of our total assets.

Goodwill and intangible assets deemed to have indefinite lives are not amortized. All other intangible assets are amortized over their estimated useful lives. 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 Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("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 two 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 and $132.0 million at December 31, 2004 and 2005, respectively, 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 Statement of Financial Accounting Standards 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 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 under our stated shipping terms. 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.
- Our terms of sale to customers generally do not include any obligations to perform future services. Limited warranties are 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 $8.3 million, $9.3 million and $11.2 million for 2003, 2004 and 2005, 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 $1.5 million at December 31, 2005 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, 2003, 2004 and 2005, respectively:

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Net income | $ 32,082 | $ 33,465 | $ 31,994 |
| Basic-weighted average shares outstanding | 28,930 | 29,523 | 29,300 |
| Effect of dilutive potential securities | 326 | 582 | 436 |
| Diluted-weighted average shares outstanding | 29,256 | 30,105 | 29,736 |
| Basic EPS | $ 1.11 | $ 1.13 | $ 1.09 |
| Diluted EPS | $ 1.10 | $ 1.11 | $ 1.08 |

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 1.3 million, 0.1 million and 0.6 million at December 31, 2003, 2004 and 2005, respectively. Upon conversion of our 2.50% convertible senior subordinated notes (the "Notes"), 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. As of December 31, 2005, our share price has not exceeded the conversion price of the Notes, therefore the conversion value was less than the principal amount of the Notes. Under the net share settlement method and in accordance with Emerging Issues Task Force ("EITF") Issue 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share," there were no potential shares issuable under the Notes to be used in the calculation of diluted EPS. 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 2003, 2004 and 2005 was $5.81, $14.59 and $16.51, 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 2003, 2004 and 2005, respectively: Risk-free interest rates of 3.13%, 4.04% and 4.16%; volatility factors of the expected market price of the Company's common stock of 32.08%, 51.20% and 53.26%; a weighted-average expected life of the option of 5.0 years in 2003, 7.3 years in 2004 and 5.7 years in 2005; 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:

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Net income—as reported | $ 32,082 | $ 33,465 | $ 31,994 |
| Pro forma stock-based employee compensation expense, net of related income tax effect | (2,383) | (4,598) | (4,075) |
| Net income—pro forma | $ 29,699 | $ 28,867 | $ 27,919 |
| Earnings per share—as reported: | | | |
| Basic | $ 1.11 | $ 1.13 | $ 1.09 |
| Diluted | $ 1.10 | $ 1.11 | $ 1.08 |
| Earnings per share—pro forma: | | | |
| Basic | $ 1.03 | $ 0.98 | $ 0.95 |
| Diluted | $ 1.02 | $ 0.96 | $ 0.94 |

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 the revised SFAS 123 in the first quarter of 2006. See Note 14 for additional discussion.

### Accumulated other comprehensive income (loss)

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

| | Minimum Pension Liability | Cumulative Translation Adjustments | Accumulated Other Comprehensive Income (loss) |
|---|---|---|---|
| Balance, December 31, 2004 | (10,455) | $ 4,056 | $ (6,399) |
| Foreign currency translation adjustments | — | (3,657) | (3,657) |
| Minimum pension liability (net of income taxes) | 320 | — | 320 |
| Balance, December 31, 2005 | (10,135) | $ 399 | $ (9,736) |

## 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 2003, we completed several acquisitions relating to our Patient Care and Electrosurgery product lines totaling $6.1 million in cash. We also recorded additional contingent consideration related to 2002 acquisitions of $2.0 million and issued 85,000 shares of common stock totaling $1.7 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 acquisition of CORE Dynamics, Inc. in 2002; $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.

As determined by management with the assistance of 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 ("IPRD") assets were written off in accordance with Financial Accounting Standards Board ("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). Included in cost of sales during 2004 and 2005 is $2.3 million and $0.5 million, respectively, of expense which represents the step-up to fair value recorded relating to the sale of inventory acquired through the Bard Endoscopic Technologies acquisition. The acquired business enhanced our product offerings by adding a comprehensive line of single-use medical devices employed by gastrointestinal and pulmonary physicians to diagnose and treat diseases of the digestive tract and lungs using minimally invasive endoscopic techniques.

As determined by management with the assistance of a third-party valuation, $16.4 million of the Bard Endoscopic Technologies acquisition 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. The $16.4 million write-off of purchased in-process research and development assets is deductible for income tax purposes.

Unaudited pro forma statements of income for the years ended December 31, 2003 and 2004, assuming the Bionx acquisition occurred as of January 1, 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.

| | 2003 | 2004 |
|---|---|---|
| Net sales | $ 555,084 | $ 604,566 |
| Net income | 28,090 | 33,749 |
| Net income per share | | |
| Basic | $ 0.97 | $ 1.14 |
| Diluted | $ 0.96 | $ 1.12 |

## Note 3 — Inventories

Inventories consist of the following at December 31,:

| | 2004 | 2005 |
|---|---|---|
| Raw materials | $ 40,781 | $ 45,991 |
| Work in process | 13,427 | 16,472 |
| Finished goods | 73,727 | 89,965 |
| | $ 127,935 | $152,428 |

## Note 4 — Property, Plant and Equipment

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

| | 2004 | 2005 |
|---|---|---|
| Land | $ 4,200 | $ 4,200 |
| Building and improvements | 78,637 | 80,713 |
| Machinery and equipment | 92,789 | 95,300 |
| Construction in progress | 3,675 | 7,086 |
| | 179,301 | 187,299 |
| Less: Accumulated depreciation | (77,836) | (83,075) |
| | $ 101,465 | $ 104,224 |

We lease various manufacturing facilities, office facilities and equipment under operating leases. Rental expense on these operating leases was approximately $1,959, $2,649 and $2,727 for the years ended December 31, 2003, 2004 and 2005, respectively. The aggregate future minimum lease commitments for operating leases at December 31, 2005 are as follows:

Year ending December 31,:

| | |
|---|---|
| 2006 | $ 3,124 |
| 2007 | 2,871 |
| 2008 | 2,625 |
| 2009 | 1,762 |
| 2010 | 1,395 |
| Thereafter | 2,366 |

## 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:

| | 2004 | 2005 |
|---|---|---|
| Balance as of January 1, | $ 290,562 | $ 334,483 |
| Goodwill acquired | 43,876 | — |
| Adjustments to goodwill resulting from business acquisitions finalized | 176 | 372 |
| Foreign currency translation | (131) | 796 |
| Balance as of December 31, | $ 334,483 | $ 335,651 |

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

| | 2004 | 2005 |
|---|---|---|
| CONMED Electrosurgery | $ 16,645 | $ 16,645 |
| CONMED Endoscopic Technologies | 46,592 | 46,649 |
| CONMED Endosurgery | 42,388 | 42,404 |
| CONMED Linvatec | 175,120 | 175,853 |
| CONMED Patient Care | 53,738 | 54,100 |
| Balance as of December 31, | $ 334,483 | $335,651 |

Other intangible assets consist of the following:

| | Dec. 31, 2004 | | Dec. 31, 2005 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| **Amortized intangible assets:** | | | | |
| Customer relationships | $ 110,612 | $ (18,290) | $ 110,612 | $ (21,317) |
| Patents and other intangible assets | 35,444 | (19,876) | 37,344 | (22,581) |
| **Unamortized intangible assets:** | | | | |
| Trademarks and tradenames | 87,344 | — | 87,344 | — |
| | $233,400 | $ (38,166) | $235,300 | $(43,898) |

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 24 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, 2005 and estimated amortization expense for each of the five succeeding years is as follows:

| | |
|---|---|
| 2005 | $ 5,732 |
| 2006 | 5,266 |
| 2007 | 5,252 |
| 2008 | 5,252 |
| 2009 | 4,859 |
| 2010 | 4,652 |

## Note 6 — Long-Term Debt

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

| | 2004 | 2005 |
|---|---|---|
| Revolving line of credit | $ — | $ 43,000 |
| Term loan borrowings on senior credit facility | 128,063 | 98,147 |
| 2.5% Convertible senior subordinated notes | 150,000 | 150,000 |
| Mortgage notes | 16,459 | 15,704 |
| Total long-term debt | 294,522 | 306,851 |
| Less: Current portion | 4,037 | 4,208 |
| | $ 290,485 | $302,643 |

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.

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 represented $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, 2005 the amended senior credit agreement consisted of a $100.0 million revolving credit facility and a $98.1 million term loan. There were $43.0 million in borrowings outstanding on the revolving credit facility at December 31, 2005. The revolving credit facility expires in August 2007. The term loan is scheduled to be repaid in quarterly installments over a remaining period of approximately four 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 2004 and 2005. Interest rates on the term loan are at the London Interbank Offered Rate ("LIBOR") plus 2.25% (6.44% at December 31, 2005). Interest rates on the revolving credit facility are at LIBOR plus 2.25% or an alternative base rate (8.50% at December 31, 2005).

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.

Mortgage notes outstanding in connection with the property and facilities utilized by our CONMED Linvatec subsidiary consist 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 $6.9 million and $8.8 million, respectively, at December 31, 2005. These mortgage notes are secured by the CONMED Linvatec property and facilities.

On November 11 2004, we completed an offering 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 subordinated unsecured obligations and are convertible under certain circumstances, as defined in the bond indenture, into a combination of cash and CONMED common stock. 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.

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.

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. 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, 2005 are as follows:

| | |
|---|---|
| 2006 | $ 4,208 |
| 2007 | 47,393 |
| 2008 | 62,343 |
| 2009 | 34,448 |
| 2010 | 824 |
| Thereafter | 157,635 |

## Note 7 — Income Taxes

The provision for income taxes for the years ended December 31, 2003, 2004 and 2005 consists of the following:

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Current tax expense: | | | |
| Federal | $ 5,486 | $ 9,138 | $ 3,083 |
| State | 665 | 975 | 795 |
| Foreign | 1,061 | 1,683 | 2,170 |
| | 7,212 | 11,796 | 6,048 |
| Deferred income tax expense | 13,715 | 4,301 | 10,128 |
| Provision for income taxes | $ 20,927 | $ 16,097 | $ 16,176 |

A reconciliation between income taxes computed at the statutory federal rate and the provision for income taxes for the years ended December 31, 2003, 2004 and 2005 follows:

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Tax provision at statutory rate based on income before income taxes | 35.00% | 35.00% | 35.00% |
| Extraterritorial income exclusion | (2.36) | (5.30) | (2.78) |
| State income taxes | .90 | 2.75 | .66 |
| Nondeductible intangible amortization | .17 | .18 | .05 |
| Nondeductible write-off of purchased in-process research and development assets | 5.22 | — | — |
| Other nondeductible permanent differences | .51 | .36 | .85 |
| Other, net | .04 | (.51) | (.20) |
| | 39.48% | 32.48% | 33.58% |

The tax effects of the significant temporary differences which comprise the deferred tax assets and liabilities at December 31, 2004 and 2005 are as follows:

| | 2004 | 2005 |
|---|---|---|
| Assets: | | |
| Inventory | $ 10,791 | $ 10,913 |
| Net operating losses of acquired subsidiaries | 8,025 | 8,663 |
| Deferred compensation | 1,602 | 1,931 |
| Accounts receivable | 509 | 865 |
| Additional minimum pension liability | 5,630 | 5,457 |
| Other | 2,024 | — |
| Valuation allowance | (5,887) | (6,160) |
| | 22,694 | 21,669 |
| Liabilities: | | |
| Goodwill and intangible assets | 51,707 | 63,601 |
| Depreciation | 6,412 | 5,568 |
| Employee benefits | 1,530 | 722 |
| State taxes | 745 | 1,116 |
| Other | — | 329 |
| | 60,394 | 71,336 |
| Net liability | $ (37,700) | $ (49,667) |

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

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| U.S. income | $ 49,275 | $ 45,876 | $ 42,653 |
| Foreign income | 3,734 | 3,686 | 5,517 |
| Total income | $ 53,009 | $ 49,562 | $ 48,170 |

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.

The American Jobs Creation Act, signed into law in October 2004, provided an opportunity in 2005 to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. We evaluated the potential effects of the repatriation provision and determined not to repatriate earnings under this provision. We have not provided for federal income taxes on the undistributed earnings of our foreign subsidiaries as it remains our intention to permanently reinvest such earnings (approximately $23.2 million as of December 31, 2005).

We operate in multiple taxing jurisdictions, both within and outside the United States. We face audits from these various tax authorities regarding the amount of taxes due. Such audits can involve complex issues and may require an extended period of time to resolve. Our United States federal income tax returns have been examined by the Internal Revenue Service ("IRS") for calendar years ending through 2000. We believe all tax differences arising from those audits have been resolved and settled. The IRS is currently examining our federal income tax returns for calendar years 2001 through 2003. We do not currently anticipate any material adjustments to income tax expense as a result of these examinations.

## 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, 2004 and 2005, no preferred stock had been issued.

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 could be purchased in any calendar year. The Board subsequently amended this program on December 2, 2005 to authorize repurchases up to $100.0 million of our common stock, although no more than $50.0 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 repurchased 1.8 million shares of common stock as of December 31, 2005 under this authorization.

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 144,000 shares remain available for grant at December 31, 2005. 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, 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 |
| Granted | 504 | 30.75 |
| Forfeited | (26) | 24.33 |
| Exercised | (954) | 16.67 |
| Outstanding at December 31, 2005 | 3,085 | $ 22.12 |
| Exercisable: | | |
| December 31, 2003 | 2,590 | 17.19 |
| December 31, 2004 | 2,435 | 18.90 |
| December 31, 2005 | 2,023 | 20.98 |

| Range of Exercise Prices | Stock Options Outstanding at Dec. 31, 2005 | Weighted Average Remaining Life (Years) | Weighted Average Exercise Price | Stock Options Exercisable at Dec. 31, 2005 | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $ 6.52 to $16.29 | 468 | 4.9 | $ 14.16 | 363 | $ 13.96 |
| $16.29 to $19.55 | 627 | 5.1 | 17.55 | 469 | 17.44 |
| $19.55 to $22.81 | 647 | 5.9 | 20.92 | 432 | 20.70 |
| $22.81 to $29.32 | 869 | 7.8 | 25.81 | 599 | 25.47 |
| $29.32 to $32.58 | 474 | 9.2 | 30.92 | 160 | 31.22 |
| Total | 3,085 | | | 2,023 | |

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 or (2) 85% of the fair market value of the common stock at the end of such semi-annual period. During 2005, we issued approximately 47,000 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.

Effective January 1, 2006, the Plan was amended to eliminate the look back feature whereby the purchase price is equal to 95% of the fair market value of the common stock on the exercise date.

## 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. We believe each of our segments are similar in the nature of products, production processes, customer base, distribution methods and regulatory environment.

All of our operating units qualify for aggregation under SFAS 131 except CONMED Patient Care. The economic characteristics of CONMED Patient Care do not meet the criteria in 2005 for aggregation due to the lower overall operating income in this segment. Accordingly, we have provided comparable information for the prior two years. Based upon the aggregation criteria for segment reporting, we have grouped all of our operating units except CONMED Patient Care into a single segment comprised of medical instruments and systems used in surgical and other medical procedures. CONMED Patient Care is comprised of cardiac and other vital sign devices as well as a variety of other medical products.

The following is net sales information by product line and reportable segment:

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Arthroscopy | $ 182,061 | $ 204,887 | $ 211,397 |
| Powered Surgical Instruments | 122,031 | 128,572 | 132,045 |
| Electrosurgery | 77,337 | 85,912 | 88,455 |
| Endosurgery | 45,764 | 47,400 | 50,694 |
| Endoscopic Technologies | — | 15,738 | 58,835 |
| Medical Instruments and Systems | 427,193 | 482,509 | 541,426 |
| Patient Care | 69,937 | 75,879 | 75,879 |
| Total | $ 497,130 | $ 558,388 | $ 617,305 |

Total assets, capital expenditures, depreciation and amortization information are not available by segment.

The following is a reconciliation between segment operating income and income before income taxes:

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Medical Instruments and Systems | $ 69,717 | $ 53,431 | $ 59,391 |
| Patient Care | 10,238 | 9,730 | 4,357 |
| Total operating income | 79,955 | 63,161 | 63,748 |
| Loss on early extinguishment of debt | 8,078 | 825 | — |
| Interest expense | 18,868 | 12,774 | 15,578 |
| Total income before income taxes | $ 53,009 | $ 49,562 | $ 48,170 |

The following is net sales information for geographic areas:

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| United States | $ 333,473 | $ 364,819 | $ 390,050 |
| Canada | 24,620 | 27,384 | 36,111 |
| United Kingdom | 19,883 | 27,120 | 30,117 |
| Japan | 18,265 | 19,793 | 22,073 |
| Australia | 12,604 | 17,536 | 23,237 |
| All other countries | 88,285 | 101,736 | 115,717 |
| Total | $ 497,130 | $ 558,388 | $ 617,305 |

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, 2004 and 2005. No single customer represented over 10% of our consolidated net sales for the years ended December 31, 2003, 2004 and 2005.

## 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 $2.2 million, $1.8 million and $2.2 million during the years ended December 31, 2003, 2004 and 2005, 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,:

| | 2004 | 2005 |
|---|---|---|
| **Accumulated Benefit Obligation** | $ 43,337 | $ 44,971 |
| **Change in benefit obligation** | | |
| Projected benefit obligation at beginning of year | $ 38,878 | $ 48,872 |
| Adjustment for plan amendment | (6,352) | — |
| Service cost | 3,144 | 4,503 |
| Interest cost | 2,377 | 2,575 |
| Actuarial loss | 13,759 | 517 |
| Benefits paid | (2,934) | (5,047) |
| Projected benefit obligation at end of year | $ 48,872 | $ 51,420 |
| **Change in plan assets** | | |
| Fair value of plan assets at beginning of year | $ 33,632 | $ 33,188 |
| Actual gain on plan assets | 2,490 | 1,611 |
| Employer contribution | — | 3,500 |
| Benefits paid | (2,934) | (5,047) |
| Fair value of plan assets at end of year | $ 33,188 | $ 33,252 |
| **Change in funded status** | | |
| Funded status | $ 15,684 | $ 18,168 |
| Unrecognized net actuarial loss | (27,461) | (27,536) |
| Unrecognized transition liability | (44) | (40) |
| Unrecognized prior service cost | 5,886 | 5,535 |
| Additional minimum pension liability | 16,084 | 15,592 |
| Accrued (prepaid) pension cost | $ 10,149 | $ 11,719 |

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

| | 2004 | 2005 |
|---|---|---|
| Accrued pension liability | $ 10,149 | $ 11,719 |
| Accumulated other comprehensive income (loss) | (16,084) | (15,592) |
| Net amount recognized | $ (5,935) | $ (3,873) |

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

| | 2004 | 2005 |
|---|---|---|
| Discount rate | 5.75% | 5.55% |
| 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:

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Service cost—benefits earned during the period | $ 4,167 | $ 3,144 | $ 4,503 |
| Interest cost on projected benefit obligation | 2,419 | 2,377 | 2,651 |
| Expected return on plan assets | (1,728) | (2,562) | (2,047) |
| Net amortization and deferral | 750 | 660 | 455 |
| Settlement loss | 2,839 | — | — |
| Net periodic pension cost | $ 8,447 | $ 3,619 | $ 5,562 |

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, 2003, 2004 and 2005, respectively, we recognized comprehensive income of $5.1 million, net of income taxes, a comprehensive loss of $10.5 million, net of income taxes, and comprehensive income of $0.3 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,:

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Discount rate | 6.75% | 6.25% | 5.75% |
| 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 |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| Equity securities | 48% | 64% | 70% |
| Debt securities | 52 | 36 | 30 |
| Total | 100% | 100% | 100% |

As of December 31, 2005, 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.

We do not expect there to be any required contributions to our pension plan in 2006.

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, 2005 and reflect the impact of expected future employee service.

| | |
|---|---|
| 2006 | $ 3,479 |
| 2007 | 1,828 |
| 2008 | 1,897 |
| 2009 | 1,915 |
| 2010 | 2,120 |
| 2011-2015 | 12,129 |

## 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. Likewise, from time to time, the Company may receive a subpoena from a government agency such as the Equal Employment Opportunity Commission, Occupational Safety and Health Administration, the Department of Labor, the Treasury Department, and other federal and state agencies. These subpoenas may or may not be routine inquiries. 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 or in connection with certain government investigations, we establish sufficient reserves to cover probable losses associated with such claims. We do not expect that the resolution of any pending claims or investigations will have a material adverse effect on our financial condition or results of operations. There can be no assurance, however, that future claims or investigations, the costs associated with claims or investigations, especially claims and investigations 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, and in the past have been 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. As discussed in Note 12, we entered into a settlement of certain environmental claims during the second quarter of 2005 related to the operations of one of our subsidiaries

during the 1980s, before it was acquired by CONMED, at a site other than the one it currently occupies.

In November 2003, we commenced litigation against Johnson & Johnson and several of its subsidiaries, including Ethicon, Inc. for violation of federal and state antitrust laws. The lawsuit claims that Johnson & Johnson engaged in illegal and anticompetitive conduct with respect to sales of product used in endoscopic surgery, resulting in higher prices to consumers and the exclusion of competition. We have sought relief which includes an injunction restraining Johnson & Johnson from continuing its anticompetitive practice as well as receiving the maximum amount of damages allowed by law. The discovery phase is now essentially completed. Johnson & Johnson filed a motion for summary judgment on October 21, 2005. If granted, the motion would end the case, subject to an appeal that we would be entitled to take. Our response to the motion was submitted in November 2005, and the hearing on the motion was held on December 16, 2005. There is no fixed time frame within which the Court must decide the motion. 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 may be material.

## Note 12 — Other Expense (Income)

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

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| 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 | 4,108 |
| Termination of product offering | — | 2,396 | 1,519 |
| Environmental settlement costs | — | — | 698 |
| Loss on equity investment | — | — | 794 |
| Other expense (income) | $ (2,917) | $ 3,943 | $ 7,119 |

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 was in conjunction with 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 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. We instituted a customer replacement program whereby all currently installed surgical lights have been or 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 $5.8 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. During 2005, we recorded an additional $1.5 million. It is anticipated that the remaining $1.9 million in costs will be incurred in the first half of 2006 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. During 2005, we incurred an additional $4.1 million of expense related to acquisition transition and integration related charges.

During 2005, we entered into a settlement of certain environmental claims related to the operations of one of our subsidiaries during the 1980s, before it was acquired by CONMED, at a site other than the one it currently occupies. The current owner alleged that the acquired subsidiary caused environmental contamination of the property. In order to avoid litigation, the Company agreed to reimburse the owner for a certain percentage of past remediation costs, and to participate in the funding of the remediation activities. The total sum of past costs, including attorney's fees, together with the current estimate of future costs, amounts to approximately $0.7 million and has been recorded in other expense.

We incurred a $0.8 million loss on the sale of an equity investment. This investment had a carrying value of $2.0 million and was sold in January 2006 for $1.2 million resulting in the $0.8 million loss.

## 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:

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Balance as of January 1, | $ 3,213 | $ 3,588 | $ 3,524 |
| Provision for warranties | 4,209 | 3,961 | 4,035 |
| Claims made | (3,934) | (4,025) | (4,143) |
| Warranties acquired | 100 | — | — |
| Balance as of December 31, | $ 3,588 | $ 3,524 | $ 3,416 |

## Note 14 — New Accounting Pronouncements

In December 2004, Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), was issued which replaces SFAS 123 and supersedes APB 25. We adopted SFAS 123R effective January 1, 2006. 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. The pro forma disclosures previously permitted under SFAS 123, no longer will be an alternative to financial statement recognition. SFAS 123R provides for two alternative methods of adoption, the modified prospective application and the modified retrospective application. The modified prospective application applies to new awards and to awards modified, repurchased, or cancelled after the effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding after the effective date will be recognized as the service is rendered on or after the effective date. We have elected the modified prospective application method for adopting SFAS 123R. The fair value of employee stock

options will be determined on the grant date using a Black-Scholes valuation model. The fair value of all stock options issued will be based upon the fair value calculated as of the grant date. Since we currently account for employee stock options under APB 25, the adoption of SFAS 123R is expected to impact our results of operations by $0.10 to $0.15 per diluted earnings per share.

Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143)" ("FIN 47") was issued in March 2005. This Interpretation provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation are conditional on a future event. We have adopted FIN 47 and have determined we have legal obligations, however this liability is not material to the financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections - A Replacement of APB Opinion No. 20 and FASB Statement No. 3.," ("SFAS 154"). SFAS 154 requires retrospective application to prior periods' financial statements for the direct effects of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, and early adoption is permitted. We have considered SFAS 154 and have determined this pronouncement will not materially impact our consolidated results of operations.

## Note 15 — Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data for 2004 and 2005 are as follows:

| | Three Months Ended | | | |
|---|---|---|---|---|
| | **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 |

| | **March** | **June** | **September** | **December** |
|---|---|---|---|---|
| **2005** | | | | |
| Net sales | $ 155,859 | $ 158,276 | $ 149,970 | $ 153,200 |
| Gross profit | 80,475 | 82,124 | 75,954 | 74,468 |
| Net income | 10,765 | 10,508 | 7,914 | 2,807 |
| EPS: | | | | |
| Basic | $ .37 | $ .36 | $ .27 | $ .10 |
| Diluted | .36 | .35 | .26 | .10 |

**Unusual Items Included In Selected Quarterly Financial Data:**

**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.

**2005**

**First quarter**

During the first quarter of 2005, we recorded $0.5 million of Bard Endoscopic Technologies acquisition-related charges in cost of sales—see Note 2.

During the first quarter of 2005, we recorded a charge of $0.5 million related to our termination of our surgical lights product line and $1.4 million of acquisition-related costs associated with the Bard Endoscopic Technologies acquisition to other expense—see Note 12.

**Second quarter**

During the second quarter of 2005, we recorded a charge of $0.4 million related to our termination of our surgical lights product line; $1.4 million of acquisition-related costs associated with the Bard Endoscopic Technologies acquisition; and $0.7 million related to a settlement of certain environmental claims related to the operations of one of our subsidiaries during the 1980s, before it was acquired by CONMED, at a site other than the one it currently occupies to other expense—see Note 12.

**Third quarter**

During the third quarter of 2005, we recorded a charge of $0.1 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.

**Fourth quarter**

During the fourth quarter of 2005, we recorded a charge of $0.5 million related to our termination of our surgical lights product line; $0.6 million of acquisition-related costs associated with the Bard Endoscopic Technologies acquisition and a $0.8 million charge related to the loss on the sale of an equity investment to other expense—see Note 12.

The decline in net income in the fourth quarter is a result of a decrease in gross profit margin as a result of increased costs associated with higher raw material costs and increased spending related to quality assurance. We also incurred significantly higher selling and administrative costs associated with higher distribution costs as well as increased spending on corporate quality systems and management and the Johnson and Johnson litigation—see Note 11.

# BOARD OF DIRECTORS
## BIOGRAPHIES

**EUGENE R. CORASANTI** has served as Chairman of the Board of the Company since its incorporation in 1970. Mr. Corasanti has also served as the Company's Chief Executive Officer since its founding, having served as President and Chief Operating Officer from its founding until August 1999. Prior to the founding of the Company, Mr. Corasanti was an independent public accountant. Mr. Corasanti holds a B.B.A. degree in Accounting from Niagara University. Eugene R. Corasanti's son, Joseph J. Corasanti, is President and Chief Operating Officer and a Director of the Company.

**JOSEPH J. CORASANTI** has served as President and Chief Operating Officer of the Company since August 1999 and as a Director of the Company since May 1994. Mr. Corasanti is also on the Board of Directors of II-VI, Inc. He previously served as General Counsel and Vice President-Legal Affairs, and Executive Vice-President/General Manager of the Company. Prior to that time he was an Associate Attorney with the law firm of Morgan, Wenzel & McNicholas. Mr. Corasanti holds a B.A. degree in Political Science from Hobart College and a J.D. degree from Whittier College School of Law. Joseph J. Corasanti is the son of Eugene R. Corasanti, Chairman and Chief Executive Officer of the Company.

**BRUCE F. DANIELS** has served as a Director of the Company since August 1992. Mr. Daniels is a retired executive. From August 1974 to June 1997, Mr. Daniels held various executive positions, including a position as Controller with Chicago Pneumatic Tool Company. Mr. Daniels holds a B.S. degree in Business from Utica College of Syracuse University.

**JO ANN GOLDEN** joined the Board of Directors in 2003. Ms. Golden is a certified public accountant and managing partner of the New Hartford, NY office of Dermody Burke and Brown, CPAs, LLC. Ms. Golden is past President of the New York State Society of CPAs and the New York State Society's Foundation for Accounting Education. She also served as Secretary and Vice President of the State Society and was a member of the governing Council of the American Institute of Certified Public Accountants, where she served on the Global Credential Survey Task Force in 2001. Ms. Golden holds a B.A. degree from the State University College at New Paltz, and a B.S. degree in Accounting from Utica College of Syracuse University.

**STEPHEN M. MANDIA** has served as a Director of the Company since July 2002. Mr. Mandia has been the President and Chief Executive Officer of East Coast Olive Oil Corp. since 1991. Mr. Mandia also possesses financial ownership and sits on the Board of Gem Packing Corp., Utica Plastics, LLC, ECOO Realty Corp., Olive Transport Corp. and Northside Gourmet Corp. Mr. Mandia holds a B.S. degree from Bentley College, having also undertaken undergraduate studies at Richmond College in London.

**WILLIAM D. MATTHEWS** has served as a Director of the Company since August 1997. From 1986 until retiring from the positions in 1999, Mr. Matthews was the Chairman of the Board and the Chief Executive Officer of Oneida Ltd. Mr. Matthews is the Chairman of the Board of Directors and a member of the audit committee of Oneida Financial Corporation and a former director of Coyne Textile Services. Mr. Matthews holds a B.A. degree from Union College and an L.L.B. degree from Cornell University School of Law.

**STUART J. SCHWARTZ** has served as a Director of the Company since May 1998. Dr. Schwartz is a retired physician. From 1969 to December 1997 he was engaged in private practice as a urologist. Dr. Schwartz holds a B.A. degree from Cornell University and an M.D. degree from SUNY Upstate Medical College, Syracuse.

## EXECUTIVE AND SENIOR OFFICERS

**Eugene R. Corasanti**
Chairman of the Board and CEO

**Joseph J. Corasanti, Esq.**
President and COO

**William W. Abraham**
Senior Vice President

**Thomas M. Acey**
Treasurer and Secretary

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

**Alexander R. Jones**
Vice President – Corporate Sales

**Jane E. Metcalf**
Vice President – Corporate Regulatory Affairs

**David R. Murray**
President – CONMED Electrosurgery

**Luke A. Pomilio**
Vice President – Corporate Controller

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

**John J. Stotts**
Vice President – CONMED Patient Care

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

**Frank R. Williams**
Vice President – CONMED Endosurgery

**Gerald G. Woodard**
President – CONMED Linvatec

**Operating Subsidiaries**
CONMED Electrosurgery
CONMED Endoscopic Technologies
CONMED Integrated Systems
CONMED Integrated Systems Canada
CONMED Linvatec
CONMED Linvatec Australia
CONMED Linvatec Austria
CONMED Linvatec Belgium
CONMED Linvatec Biomaterials
CONMED Linvatec Canada
CONMED Linvatec Deutschland
CONMED Linvatec Endoscopy
CONMED Linvatec Europe
CONMED Linvatec France
CONMED Linvatec Korea
CONMED Linvatec Nederland
CONMED Linvatec Poland
CONMED Linvatec Spain
CONMED Linvatec U.K.
CONMED Receivables Corporation

## SHAREHOLDER INFORMATION

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

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**Ethics Policy**
Available at www.conmed.com

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