CNMD

ConMed® Corporation

Annual Report

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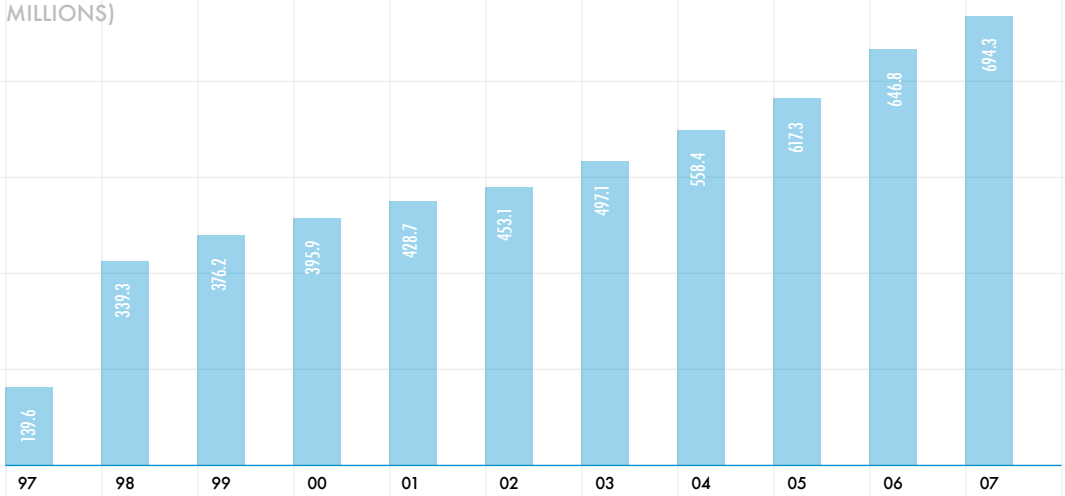
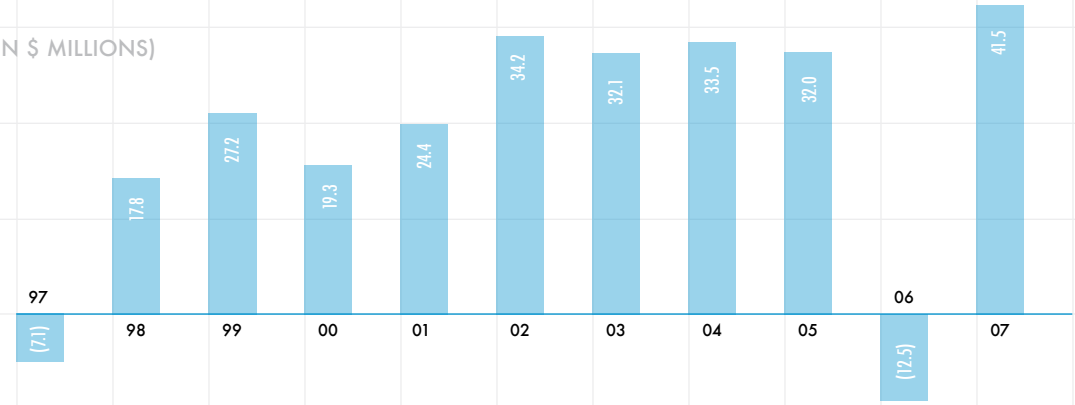
NET SALES (IN $ MILLIONS)

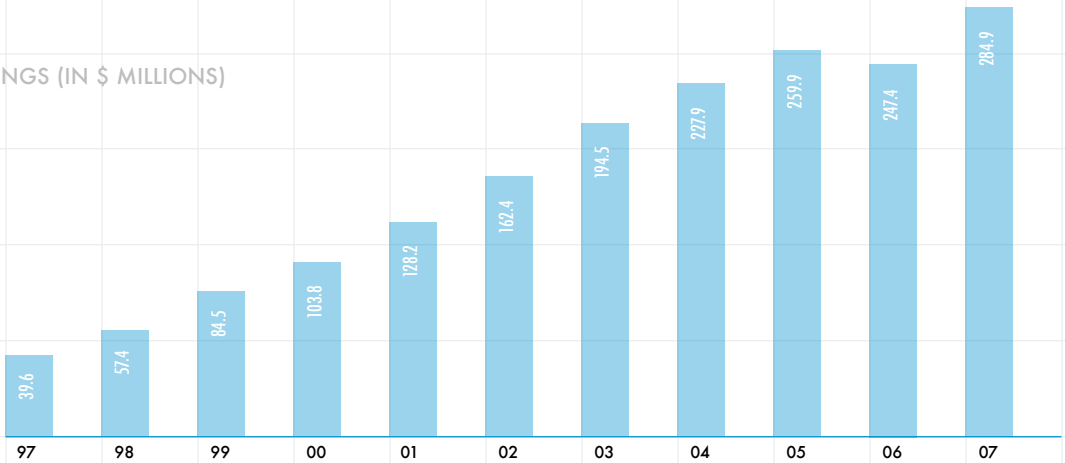


FINANCIAL HIGHLIGHTS

NET INCOME (IN $ MILLIONS)



RETAINED EARNINGS (IN $ MILLIONS)



Joseph J. Corasanti

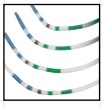
Dear Shareholders,

I am very pleased to report that CONMED Corporation experienced a very profitable 2007.

LETTER TO THE SHAREHOLDERS

We delivered strong improvements in revenue, margins and profitability. Equally important, we reduced our year-over-year debt levels, which resulted in lower interest costs. Our operating divisions accomplished these financial milestones by successfully executing the strategy we have consistently communicated to you over the past 24 months:

- Grow the Company's sales through continued top-notch service to our customers, enact selective price increases and introduce innovative new products throughout each of our divisions.
- Hold the line on increases in expenses by effectively leveraging our existing infrastructure.



As a result, in 2007, the Company's sales grew 7.3%, the gross margin expanded, and selling, administrative and research and development expense grew a nominal 2.0%. The resulting operating margin, on a non-GAAP basis, grew to 11.3% in 2007 from 9.1% in 2006. On a GAAP basis, the increase was even more substantial, as the 2007 income from operations equaled $81.0 million compared to a loss of $4.6 million in 2006. Cash from operations grew to $65.9 million ($2.27 per share—a non-GAAP measurement) and was primarily used to reduce debt, which in turn reduced interest expense.

It was a year of strong performance that exceeded management's initial expectations. Of particular significance:

- Our business outside the United States continued to thrive with a total growth rate of 16.1% and a constant currency growth rate of 10.0%. Our sales organizations in the United Kingdom and Canada led the way with growth rates of 39% and 28%, respectively. International revenue now represents 42% of our business, and we expect this number to continue growing through 2008.
- The Company's video imaging products for minimally invasive surgery grew 32% over 2006. In early 2007, we became the first company globally to introduce true High Definition video imaging to the surgical suite. With 1080p resolution, the highest presently possible, our imaging systems were, and continue to be, in high demand, and our first-mover status has provided us with a significant competitive advantage in the marketplace.

- We resolved the manufacturing issues encountered in our Endoscopic Technology line and returned to a full production schedule. Our work in this business segment was highlighted by a return to positive growth for the fourth quarter of 2007. This is an excellent indicator for 2008 and beyond.

Leading Technologies and Products

We continued to focus on research and development during the past year, and our efforts bear the fruits of that labor. In March of 2008, we unveiled 11 new products at the American Academy of Orthopedic Surgeons Annual Meeting. We believe these products will further enhance our arthroscopy and powered surgical instrument product offerings, and our established reputation as an innovator.

Our other divisions are also working on a long list of new products that we envision fueling the future growth of this Company. One such product is ECOM, which is in our Patient Care line and has been in clinical trials for several months. This product has the potential to reduce the risks associated with the invasive nature of traditional cardiac output monitoring while providing more timely and reliable data to the surgical team. The data generated to date are very encouraging, and we expect initial sales from this product in 2008.

William D. Matthews

As you all know from this year's Proxy, Bill Matthews has decided not to stand for reelection to the Board of Directors. Over his 11 year term, Bill has provided invaluable counsel to CONMED. From his experience first as a General Counsel, and then as a Chief Executive Officer at Oneida Limited, he was acutely aware of the challenges involved in creating and executing an effective corporate strategy, and his meaningful contributions to this process played an important part in our success to date. His approach to providing critical oversight and advice allowed management to focus on the day-to-day running of the business, and his experience and extensive knowledge will be missed.

The Outlook

During 2007, we recognized our 20th year as a public company, which we celebrated by ringing the ceremonial NASDAQ opening bell in July. This anniversary provided us with an opportunity to pause and reflect on our past, and thoughtfully assess our outlook for the future. We have all witnessed the boom and bust cycles that some industries seem destined to suffer through: the internet bubble and the subprime meltdown are the most recent, but certainly not the last, of these excesses.

Our business was not founded on cyclical fads. Our business model is firmly supported by a long-developing and inescapable demographic fact: as our population ages, and as we continue to pursue more active lifestyles, there is an ever increasing necessity for surgical procedures. Not only do we supply products that are essential for these surgeries, we provide some of the best, most-recognized and innovative products in the medical field that offer surgeons and patients critical healthcare solutions. Our high-quality product portfolio is even more attractive when considering the reliable service we provide our customers.

There is nothing trendy in our business model; it is simply a strong dedication to patients, physicians and shareholders. This is our focus day in and day out, and the key ingredient to our success over the past 20 years. As we move forward, our goals remain to continue to grow the Company, enhance our product and service offerings and create long-term shareholder value.

As always, we thank you for your continued trust and support.

Joseph J. Corasanti
President, Chief Executive Officer

CONMED Rings The NASDAQ Opening Bell—Again!

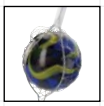
To celebrate our 20th anniversary on the NASDAQ Stock Market, CONMED was invited to ring the ceremonial opening bell on Tuesday, July 24th at the NASDAQ Marketsite in Times Square, New York, NY.

THE NASDAQ OPENING BELL

CONMED was extremely pleased to be chosen by NASDAQ for a second time for this prestigious opportunity, having rung the opening bell in August of 2002 as a recognition of our 15th year of trading on the NASDAQ. CONMED puts a tremendous value on its association with NASDAQ, which is evidenced by events like this that highlight the long-term and successful nature of our relationship.

Since our first public offering 20 years ago, CONMED's initial public market shareholders have realized an approximately 1,200% overall return as compared to 500% for the overall NASDAQ market and 400% for the S&P 500 for the same period.

CONMED's continued innovation and commercialization of new proprietary products and processes are essential elements of our success to date and long-term growth strategy. We have pioneered numerous medical devices that improve patient outcomes while providing cost-efficient solutions for healthcare providers. CONMED's ability to access the capital markets through NASDAQ has been a critical component to our business strategy and growth over the past 20 years. We look forward to our continued relationship with NASDAQ.



CONMED's overall 2007 financial performance was buoyed by significant efforts to attain operational efficiencies. The cornerstone was the decision to embrace the concepts of lean manufacturing and employ the Kaizen method to lead us on this journey.

LEAN MANUFACTURING

We established the Continuous Improvement Office in the middle of 2007 and by year's end we had hosted 15 very successful Kaizen events. Such events are one week projects focused on improving the manufacturing process for a specific product line. The 2007 events alone yielded dramatic improvements in productivity, and reductions in both inventory and square footage needs, ultimately enhancing our responsiveness to customers.

To date, the Kaizen events have been focused on the Central New York facilities where the process has been embraced. We have developed a very aggressive plan to hold 25 events during 2008. Throughout the initial phase of this process, employees from other production facilities have systematically been included as team members, and the event results presentations have been broadcast to CONMED's other facilities for awareness and educational purposes.

As we progress into 2008, we have already begun the process of consolidating our manufacturing and global supply chain efforts and expect to expand our lean manufacturing process throughout our facilities. Based on our initial success and quantitative results, we believe the Company will produce further enhancements in each of these areas.

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 4, 2008, there were 1,008 registered holders of our common stock and approximately 13,196 accounts held in "street name".

The following table sets forth quarterly high and low sales prices for the years ended December 31, 2006 and 2007, as reported by the NASDAQ Stock Market.

	2006		2007	
Period	**High**	**Low**	**High**	**Low**
First Quarter	$ 24.00	$ 18.09	$ 29.23	$ 22.84
Second Quarter	22.05	18.75	31.85	28.73
Third Quarter	21.29	19.19	30.00	26.61
Fourth Quarter	23.32	21.10	29.68	22.89

We did not pay cash dividends on our common stock during 2006 or 2007 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 7 to the Consolidated Financial Statements.

Information relating to compensation plans under which equity securities of CONMED Corporation are authorized for issuance is set forth in the section captioned "Equity Compensation Plans" in CONMED Corporation's definitive Proxy Statement or other informational filing for our 2008 Annual Meeting of Stockholders and all such information is incorporated herein by reference.

Five Year Summary of Selected Financial Data

(In thousands, except per share data) **Years Ended December 31,**	**2003**	**2004**	**2005**	**2006**	**2007**
Statements of Operations Data[1]:					
Net sales	$ 497,130	$ 558,388	$ 617,305	$ 646,812	$ 694,288
Income (loss) from operations	79,955	63,161	63,748	(4,603)	80,991
Net income (loss)	32,082	33,465	31,994	(12,507)	41,456
Earnings (loss) per share:					
Basic	$ 1.11	$ 1.13	$ 1.09	$ (.45)	$ 1.46
Diluted	1.10	1.11	1.08	(.45)	1.43
Weighted average number of common shares in calculating:					
Basic earnings (loss) per share	28,930	29,523	29,300	27,966	28,416
Diluted earnings (loss) per share	29,256	30,105	29,736	27,966	28,965
Other Financial Data:					
Depreciation and amortization	$ 24,854	$ 26,868	$ 30,786	$ 29,851	$ 31,534
Capital expenditures	9,309	12,419	16,242	21,895	20,910
Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 5,986	$ 4,189	$ 3,454	$ 3,831	$ 11,695
Total assets	805,058	872,825	903,783	861,571	893,951
Long-term debt (including current portion)	264,591	294,522	306,851	267,824	222,834
Total shareholders' equity	433,490	447,983	453,006	440,354	505,002

(1) Results of operations of acquired businesses have been recorded in the financial statements since the date of acquisition.

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:

	2005	2006	2007
Arthroscopy	34%	35%	38%
Powered Surgical Instruments	22	21	21
Electrosurgery	14	15	13
Patient Care	12	12	11
Endosurgery	8	8	9
Endoscopic Technologies	10	9	8
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 37%, 39% and 42% in 2005, 2006 and 2007, 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 to continue to diversify our product offerings, increase our market share and realize economies of scale.

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 provide an innovative alternative to 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.

Continued innovation and commercialization of new proprietary products and processes are essential elements of our long-term growth strategy. In March 2008, we expect to be unveiling several new products at the American Academy of Orthopedic Surgeons Annual Meeting which we believe will further enhance our arthroscopy and powered surgical instrument product offerings. Our reputation as an innovator is exemplified by these product introductions, which include the following: the Spectrum® MVP™ Shoulder Suture Passer, an innovative suture passing device for arthroscopic shoulder repair; the Sentinel™ Drill Bits which allows for safe and accurate drilling into the femoral tunnels during anterior cruciate ligament, or ACL, surgery; the Shutt® Series 210™ Instruments for Hip Arthroscopy, which include nine manual instruments allowing for working in deep joints such as the hip; EL Microfracture Awls and Sterilization Tray which is for easier access in difficult-to-reach areas and use in hip arthroscopy; Smart Screw® II, a comprehensive line of bioabsorbable bone fixation implants; ThRevo® with HiFi, a shoulder anchor that incorporates the advantage of the HiFi high strength suture; Cordless Revision Attachment for Battery Handpieces, which are the only cordless revision attachments on the market and are used for cement removal in orthopedic revision surgery; Intrex™ Blade Line, a blade system composed of six blade profiles in seven different thicknesses for a comprehensive system of large bone saw blades; HD Arthroscope, the first high definition, or HD, arthroscope on the market ensures maximized transmission of high contrast light from the arthroscope into the True HD camera head; and the Single Chip Enhanced Definition Camera System, which incorporates a camera and image capture in the same device.

Business Challenges

In September 2004, we acquired the business operations of the Endoscopic Technologies Division of C.R. Bard, Inc. (the "Endoscopic Technologies acquisition") for aggregate consideration of $81.3 million in cash. The acquired business has 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. The transfer of the Endoscopic Technologies production lines from C.R. Bard facilities to CONMED facilities proved to be more time-consuming, costly and complex than was originally anticipated. Operational issues associated with the transfer of production lines resulted in backorders, which, combined with increased competition and pricing pressures in the marketplace, have resulted in decreased sales, lower than anticipated gross margins and operating losses. As a result of these factors, during our fourth quarter 2006 goodwill impairment testing, we determined that the goodwill of our Endoscopic Technologies business was impaired and consequently we recorded an impairment charge of $46.7 million to reduce the carrying amount of this business to its fair value. We have taken corrective action to resolve the operational issues associated with product shortages and now believe we have a stable supply of product to meet customer demand. Although we experienced a sales decline of 4.0% for the 2007 full year in the Endoscopic Technologies product line, fourth quarter 2007 sales grew 6.3%, which we believe signifies a return to normal growth patterns.

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. We are committed to the principles and strategies of systems-based quality management for improved CGMP compliance, operational performance and efficiencies through our Company-wide quality systems initiative. However, there can be no assurance that our actions will ensure that we will not receive a warning letter or other regulatory action which may include consent decrees or fines.

Critical Accounting Policies

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 $11.2 million, $14.3 million and $14.1 million for 2005, 2006 and 2007, 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 $0.8 million at December 31, 2007 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 $289.5 million and other intangible assets of $191.8 million at December 31, 2007.

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 businesses. 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. It is our policy to perform annual impairment tests in the fourth quarter.

During the fourth quarter of 2006, after completing our annual goodwill impairment analysis, we determined that the goodwill of our CONMED Endoscopic Technologies business was impaired and consequently we recorded a goodwill impairment charge of $46.7 million.

See Note 4 to the Consolidated Financial Statements for further discussion of goodwill and other intangible assets.

Pension Plan

We sponsor a defined benefit pension plan covering substantially all our employees. 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.

The discount rate was determined by using the Citigroup Pension Liability Index rate which, we believe, is a reasonable indicator of our plan's future benefit payment stream. This rate, which increased from 5.90% in 2007 to 6.48% in 2008, is used in determining pension expense. This change in assumption will result in lower pension expense during 2008.

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.

Based on these and other factors, 2008 pension expense is estimated at approximately $6.3 million compared to $6.9 million in 2007. Actual expense may vary significantly from this estimate.

We expect to contribute approximately $12.0 million to our pension plan in 2008.

See Note 9 to the Consolidated Financial Statements for further discussion.

Stock-Based Compensation

We adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R") effective January 1, 2006. SFAS 123R requires that all share-based payments to employees, including grants of employee stock options, restricted stock units, and stock appreciation rights be recognized in the financial statements based on their fair values. Prior to January 1, 2006, we

accounted for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25"). No compensation expense was recognized for stock options under the provisions of APB 25 since all options granted had an exercise price equal to the market value of the underlying stock on the grant date.

SFAS 123R was adopted using the modified prospective transition method. Under this method, the provisions of SFAS 123R apply to all awards granted or modified after the date of adoption. In addition, compensation expense must be recognized for any nonvested stock option awards outstanding as of the date of adoption. We recognize such expense using a straight-line method over the vesting period. Prior periods have not been restated.

We elected to adopt the alternative transition method, as permitted by FASB Staff Position No. FAS 123R-3 "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards," to calculate the tax effects of stock-based compensation pursuant to SFAS 123R for those employee awards that were outstanding upon adoption of SFAS 123R. The alternative transition method allows the use of a simplified method to calculate the beginning pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123R.

See Note 7 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 $24.9 million at December 31, 2007. 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 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 Federal income tax returns have been examined by the Internal Revenue Service ("IRS") for calendar years ending through 2006. During 2007, Internal Revenue Service examinations were settled for tax years 2005 and 2006. The net effect of the settlement of these examinations, was a $0.6 million reduction in income tax expense in 2007.

We have established a valuation allowance to reflect the uncertainty of realizing the benefits of certain net operating loss carryforwards recognized in connection with an acquisition. Any subsequently recognized tax benefits associated with the valuation allowance would be allocated to reduce goodwill. However, upon adoption of Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" ("SFAS 141R") on January 1, 2009, changes in deferred tax valuation allowances and income tax uncertainties after the acquisition date, including those associated with acquisitions that closed prior to the effective date of SFAS 141R, generally will affect income tax expense. 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.

On January 1, 2007 we adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The impact of this pronouncement was not material to the Company's consolidated financial statements. See Note 6 to the Consolidated Financial Statements for further discussion.

Consolidated Results of Operations

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

Years Ended December 31,	2005	2006	2007
Net sales	100.0%	100.0%	100.0%
Cost of sales	49.3	51.6	49.7
Gross margin	50.7	48.4	50.3
Selling and administrative expense	35.1	36.3	34.6
Research and development expense	4.1	4.7	4.4
Goodwill impairment	—	7.2	—
Other expense (income), net	1.0	0.8	(0.4)
Income (loss) from operations	10.5	(0.6)	11.7
Loss on early extinguishment of debt	—	0.1	—
Interest expense	2.6	3.0	2.3
Income (loss) before income taxes	7.9	(3.7)	9.4
Provision (benefit) for income taxes	2.7	(1.8)	3.4
Net income (loss)	5.2%	(1.9)%	6.0%

2007 Compared to 2006

Sales for 2007 were $694.3 million, an increase of $47.5 million (7.3%) compared to sales of $646.8 million in 2006 with the increase occurring in all product lines except Electrosurgery and Endoscopic Technologies. Favorable foreign currency exchange rates in 2007 compared to 2006 accounted for $15.2 million of the increase.

Cost of sales increased to $345.2 million in 2007 compared to $334.0 million in 2006, primarily as a result of the increased sales volumes discussed above. Gross profit margins increased 1.9 percentage points from 48.4% in 2006 to 50.3% in 2007. The increase of 1.9 percentage points is comprised of improved gross margins in our Endoscopic Technologies product lines (0.9 percentage points) as a result of the completion of the transfer of production lines from C.R. Bard to CONMED during 2006 and improved gross margins in our Patient Care, Electrosurgery and Endosurgery product lines as a result of higher selling prices (0.9 percentage points) offsetting a decline in our Arthroscopy and Powered Instrument product lines (0.2 percentage points) caused by higher production variances. Improved product mix also contributed to the increase in gross profit margins (0.3 percentage points).

Selling and administrative expense increased to $240.5 million in 2007 compared to $234.8 million in 2006. Selling and administrative expense as a percentage of net sales decreased to 34.6% in 2007 from 36.3% in 2006. This decrease of 1.7 percentage points is primarily attributable to greater leveraging of our cost structure as benefit costs (0.5 percentage points), selling expense related to our Endoscopic Technologies division (0.5 percentage points), distribution expense (0.1 percentage points) and other administrative costs (0.6 percentage points) declined as a percentage of net sales.

Research and development expense was $30.4 million in 2007 compared to $30.7 million in 2006. As a percentage of net sales, research and development expense decreased to 4.4% in 2007 from 4.7% in 2006. The decrease of 0.3 percentage points results from lower spending in our Endoscopic Technologies division as certain biliary and other projects near completion (0.3 percentage points).

During our fourth quarter 2006 goodwill impairment testing, we determined that the goodwill of our Endoscopic Technologies business was impaired and consequently we recorded an impairment charge of $46.7 million to reduce the carrying amount of this business to its fair value.

As discussed in Note 11 to the Consolidated Financial Statements, other expense in 2007 consisted of the following: $1.8 million charge related to the closing of our manufacturing facility in Montreal, Canada and a sales office in France, a $0.1 million charge related to the termination of our surgical lights product offering, $6.1 million in income related to the

settlement of the antitrust case with Johnson & Johnson, and a $1.3 million charge related to the settlement of a product liability claim and defense related costs. Other expense in 2006 consisted of the following: $0.6 million in costs related to the closing of our manufacturing facility in Montreal, Canada; $0.6 million in costs related to the write-off of inventory in settlement of a patent dispute; a $1.4 million charge related to the termination of our surgical lights product offering; and $2.6 million in Endoscopic Technologies acquisition and transition-integration related charges.

During 2006, we recorded $0.7 million in losses on the early extinguishment of debt in connection with the refinancing of our senior credit agreement. See additional discussion under Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources and Note 5 to the Consolidated Financial Statements.

Interest expense in 2007 was $16.2 million compared to $19.1 million in 2006. The decrease in interest expense is primarily a result of lower weighted average borrowings outstanding in 2007 as compared to 2006. The weighted average interest rates on our borrowings (inclusive of the finance charge on our accounts receivable sale facility) decreased to 5.51% in 2007 as compared to 5.53% in 2006.

A provision for income taxes was recorded at an effective rate of 36.0% in 2007 and (48.7)% in 2006 as compared to the Federal statutory rate of 35.0%. The effective tax rate was lower in 2006 than in 2007 as a result of certain adjustments to income tax expense. In 2006, we settled our 2001 through 2004 income taxes as a result of IRS examinations. We adjusted our reserves to consider positions taken in our income tax returns for periods subsequent to 2004. The settlement and adjustment to our reserves resulted in a $1.5 million reduction in income tax expense in 2006. During the third quarter of 2006, we filed our United States federal income tax return for 2005. As a result of the filing, we identified a greater benefit than was originally anticipated associated with the extraterritorial income exclusion rules and research and development tax credit resulting in a $0.7 million reduction in income tax expense in 2006. The net effect of these adjustments was a $2.2 million reduction in income tax expense in 2006. A reconciliation of the United States statutory income tax rate to our effective tax rate is included in Note 6 to the Consolidated Financial Statements.

2006 Compared to 2005

Sales for 2006 were $646.8 million, an increase of $29.5 million (4.8%) compared to sales of $617.3 million in 2005 with the increase occurring in all product lines except Endoscopic Technologies. Favorable foreign currency exchange rates in 2006 compared to 2005 accounted for $4.5 million of the increase.

Cost of sales increased to $334.0 million in 2006 compared to $304.3 million in 2005, primarily as a result of the increased sales volumes discussed above. Gross profit margins decreased 2.3 percentage points from 50.7% in 2005 to 48.4% in 2006. The total decrease of 2.3 percentage points is comprised of 1.2 percentage points attributable to decreased gross margins in our Endoscopic Technologies business, 0.7 percentage points attributable to decreased gross margins in our Patient Care business with the remaining 0.4 percentage point decrease attributable to decreased gross margins in our Endosurgery business. The Endoscopic Technologies business was acquired as a result of the Endoscopic Technologies acquisition and involved the transfer of substantially all of the Endoscopic Technologies production lines from C.R. Bard facilities to CONMED facilities. This transfer proved to be more time-consuming, costly and complex than was originally anticipated. In addition, production and operational issues at an assembly operation in Mexico under contract to CONMED resulted in product shortages and backorders. These operational issues, in combination with increased competition and pricing pressures in the marketplace resulted in decreased sales and gross margins. The decreases in gross margin percentage attributable to Patient Care and Endosurgery are primarily a result of significant cost increases experienced in the second half of 2005 and in 2006 with respect to certain commodity and petroleum-based raw materials such as plastic resins and polymers used in the production of many of our products as well as higher spending related to quality assurance.

Selling and administrative expense increased to $234.8 million in 2006 compared to $216.7 million in 2005. Selling and administrative expense as a percentage of net sales increased to 36.3% in 2006 from 35.1% in 2005. This increase of 1.2 percentage points is primarily attributable to expensing stock options and other share-based payments in 2006 (0.6 percentage points) due to the adoption of SFAS 123R (see Note 7 to the Consolidated Financial Statements); increased administrative expenses associated with higher distribution costs (0.2 percentage points) due in part to higher petroleum prices; higher pension costs (0.2 percentage points) due primarily as a result of a decrease in the pension discount rate; increased spending on corporate quality systems and management (0.1 percentage points) in order to continue to maintain appropriate regulatory compliance; and other increases in selling and administrative costs (0.1 percentage points).

Research and development expense was $30.7 million in 2006 compared to $25.5 million in 2005. As a percentage of net sales, research and development expense increased to 4.7% in 2006 from 4.1% in 2005. The increase of 0.6 percentage points reflects an increased emphasis on new product development across all of our product lines with the most significant increases occurring in the areas of arthroscopy and powered instruments (0.3 percentage points).

As discussed above, the transfer of the Endoscopic Technologies production lines from C.R. Bard facilities to CONMED facilities proved to be more time-consuming, costly and complex than was originally anticipated. In addition, production and operational issues at an assembly operation in Mexico under contract to CONMED resulted in product shortages and backorders. These operational issues, in combination with increased competition and pricing pressures in the marketplace resulted in decreased sales and gross margins and operating losses. As a result of these factors, during our fourth quarter 2006 goodwill impairment testing, we determined that the goodwill of our Endoscopic Technologies business was impaired and consequently we recorded an impairment charge of $46.7 million to reduce the carrying amount of this business to its fair value. We estimated the fair value of the Endoscopic Technologies business using a discounted cash flow valuation methodology and measured the goodwill impairment in accordance with SFAS 142.

As discussed in Note 11 to the Consolidated Financial Statements, other expense in 2006 consisted of the following: $0.6 million in costs related to the closing of our manufacturing facility in Montreal, Canada; $0.6 million in costs related to the write-off of inventory in settlement of a patent dispute; a $1.4 million charge related to the termination of our surgical lights product offering; and $2.6 million in Endoscopic Technologies acquisition and transition-integration related charges. Other expense in 2005 consisted of $1.5 million of expenses associated with the termination of our surgical lights product offering; $4.1 million in Endoscopic Technologies acquisition and transition-integration related charges; $0.7 million in environmental settlement costs; and $0.8 million of expense related to the loss on an equity investment.

During 2006, we recorded $0.7 million in losses on the early extinguishment of debt in connection with the refinancing of our senior credit agreement. See additional discussion under Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources and Note 5 to the Consolidated Financial Statements.

Interest expense in 2006 was $19.1 million compared to $15.6 million in 2005. The increase in interest expense is primarily a result of higher weighted average borrowings outstanding in 2006 as compared to 2005 and higher weighted average interest rates on our borrowings (5.53% in 2006 as compared to 4.69% in 2005) inclusive of the finance charge on our accounts receivable sale facility. The increase in weighted average interest rates on our borrowings is primarily a result of market increases in interest rates on our variable rate debt.

A provision for income taxes was recorded at an effective rate of (48.7)% in 2006 and 33.6% in 2005 as compared to the Federal statutory rate of 35.0%. The effective tax rate was lower in 2006 than in 2005 as a result of certain adjustments to income tax expense. In 2006, we settled our 2001 through 2004 income taxes as a result of IRS examinations. We adjusted our reserves to consider positions taken in our income tax returns for periods subsequent to 2004. The settlement and adjustment to our reserves resulted in a $1.5 million reduction in income tax expense in 2006. During the third quarter of 2006, we filed our United States federal income tax return for 2005. As a result of the filing, we identified a greater benefit than was originally anticipated associated with the extraterritorial income exclusion rules and research and development tax credit resulting in a $0.7 million reduction in income tax expense. The net effect of these adjustments was a $2.2 million reduction in income tax expense in 2006 as compared to the same period a year ago. A reconciliation of the United States statutory income tax rate to our effective tax rate is included in Note 6 to the Consolidated Financial Statements.

Operating Segment Results

Segment information is prepared on the same basis that we review financial information for operational decision-making purposes. We conduct our business through five principal operating segments: CONMED Endoscopic Technologies, CONMED Endosurgery, CONMED Electrosurgery, CONMED Linvatec and CONMED Patient Care. Based upon the aggregation criteria for segment reporting under Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), we have grouped our CONMED Endosurgery, CONMED Electrosurgery and CONMED Linvatec operating segments into a single reporting segment. The economic characteristics of CONMED Patient Care and CONMED Endoscopic Technologies do not meet the criteria for aggregation due to the lower overall operating income (loss) of these segments.

The following tables summarize the Company's results of operations by segment for 2005, 2006 and 2007:

CONMED Endosurgery, CONMED Electrosurgery and CONMED Linvatec

	2005	2006	2007
Net sales	$ 482,591	$ 515,937	$ 564,834
Income from operations	69,295	70,193	87,569
Operating margin	14.4%	13.6%	15.5%

Product offerings include a complete line of endo-mechanical instrumentation for minimally invasive laparoscopic procedures, electrosurgical generators and related surgical instruments, arthroscopic instrumentation for use in orthopedic surgery and small bone, large bone and specialty powered surgical instruments.

- Arthroscopy sales increased $36.3 million (15.9%) in 2007 to $264.5 million from $228.2 million in 2006, on increased sales of our procedure specific, resection and video imaging products for arthroscopy and general surgery; Arthroscopy sales increased $16.8 million (7.9%) in 2006 to $228.2 million from $211.4 million in 2005, on increased sales of our resection and video imaging products for arthroscopy and general surgery, and our integrated operating room systems and equipment.
- Powered Surgical Instrument sales increased $12.1 million (8.8%) in 2007 to $149.3 million from $137.2 million in 2006, on increased sales of small bone and large bone powered instrument products; Powered Surgical Instrument sales increased $5.1 million (3.9%) in 2006 to $137.2 million from $132.0 million in 2005, on increased sales of small bone and large bone powered instrument products offset by slight decreases in our specialty powered instrument products.
- Electrosurgery sales decreased $5.7 million (5.8%) in 2007 to $92.1 million from $97.8 million in 2006 principally as a result of decreased sales of our System 5000™ electrosurgical generators and pencils offset by increased sales of our ABC® handpieces; Electrosurgery sales increased $9.3 million (10.6%) in 2006 to $97.8 million from $88.5 million in 2005, on increased sales of our System 5000™ electrosurgical generator, ABC® and UltraClean™ disposable surgical products.
- Endosurgery sales increased $6.1 million (11.6%) in 2007 to $58.9 million from $52.8 million in 2006, as a result of increased sales of our hand held instruments and suction/irrigation products; Endosurgery sales increased $2.1 million (4.1%) in 2006 to $52.8 million from $50.7 million in 2005, as a result of increased sales of our hand held instruments, skin staplers, suction/irrigation products and various laparoscopic instrument products and systems.
- Operating margins as a percentage of net sales increased 1.9 percentage points to 15.5% in 2007 compared to 13.6% in 2006. The increase in operating margins are due to higher gross margins (0.3 percentage points) as result of higher selling prices, lower costs in 2007 associated with the termination of our surgical lights product offering and closing of a manufacturing facility in Montreal, Canada as discussed in Note 11 to the Consolidated Financial Statements (0.3 percentage points), lower benefit costs (0.4 percentage points), lower selling costs in our Electrosurgery division (0.5 percentage points) and lower administrative expenses (0.4 percentage points).
- Operating margins as a percentage of net sales decreased 0.8 percentage points to 13.6% in 2006 compared to 14.4% in 2005 largely as a result of increased research and development spending (0.6 percentage points) in the CONMED Linvatec product lines. The remaining 0.2 percentage point decline in operating margin is due to decreased gross margins in the CONMED Endosurgery product lines as a result of significant cost increases experienced in the second half of 2005 and in 2006 with respect to certain commodity and petroleum-based raw materials such as plastic resins and polymers used in the production of the Endosurgery product lines as well as higher spending related to quality assurance.

CONMED Patient Care

	2005	2006	2007
Net sales	$ 75,879	$ 75,883	$ 76,711
Income (loss) from operations	5,734	(759)	2,003
Operating margin	7.6%	(1.0%)	2.6%

Product offerings include a line of vital signs and cardiac monitoring products including pulse oximetry equipment & sensors, ECG electrodes and cables, cardiac defibrillation & pacing pads and blood pressure cuffs. We also offer a complete line of reusable surgical patient positioners and suction instruments & tubing for use in the operating room, as well as a line of IV products.

- Patient Care sales increased $0.9 million (1.2%) in 2007 to $76.8 million compared to $75.9 million in 2006 on increased sales of defibrillator pads. Patient Care net sales and the net sales of its principal ECG and suction instruments product lines remained flat in 2006 when compared to 2005 while increased sales of defibrillator pads and blood pressure cuffs have offset decreases in other patient care products.
- Operating margins as a percentage of net sales increased 3.6 percentage points to 2.6% in 2007 compared to (1.0%) in 2006. The increases in operating margins are primarily due to increases in gross margins of 4.0 percentage points in 2007 compared to 2006 as a result of higher selling prices. In addition, lower costs in 2007 are associated with the write-off of inventory in settlement of a patent dispute (0.8 percentage points) in 2006, offset by higher distribution costs (0.2 percentage points) and higher selling and administrative expenses (1.0 percentage points).
- Operating margins as a percentage of net sales decreased 8.6 percentage points to (1.0%) in 2006 compared to 7.6% in 2005 primarily as a result of decreased gross margins. Gross margins declined 6.1 percentage points in 2006 as compared to 2005 as a result of significant cost increases experienced in the second half of 2005 and in 2006 with respect to certain commodity and petroleum-based raw materials such

as plastic resins and polymers as well as higher spending related to quality assurance. In addition, as a percentage of net sales, research and development expense increased 0.9 percentage points in 2006 compared to 2005 as a result of increased spending on the development of our Pro2® reflectance pulse oximetry system and ECOM endotracheal cardiac output monitor. Selling and administrative expenses increased 1.6 percentage points in 2006 compared to 2005 as a result of higher distribution costs (0.5 percentage points), a charge to write-off inventory in settlement of a patent dispute (0.8 percentage points) and other increases (0.3 percentage points).

CONMED Endoscopic Technologies

	2005	2006	2007
Net sales	$ 58,835	$ 54,992	$ 52,743
Income (loss) from operations	(5,513)	(63,399)	(6,250)
Operating margin	(9.4%)	(115.3%)	(11.8%)

Product offerings include a comprehensive line of minimally invasive endoscopic diagnostic and therapeutic instruments used in procedures which require examination of the digestive tract.

- Endoscopic Technologies net sales declined $2.2 million (4.0%) in 2007 to $52.7 million from $54.9 million in 2006, principally due to decreased sales of forceps and biliary products as a result of increased competition and pricing pressures as well as production and operational issues which resulted in product shortages and backorders during the first half of 2007. Endoscopic Technologies net sales declined $3.8 million (6.5%) in 2006 to $54.9 million from $58.8 million in 2005, principally due to lower sales in our forceps products as a result of increased competition and pricing pressures as well as production and operational issues which resulted in product shortages and backorders. In addition, we experienced lower sales as a result of the discontinuation of our agreement with Xillix Technologies Corporation to distribute the ONCO-Life™ product.
- Operating margins as a percentage of net sales increased to (11.8%) in 2007 from (115.3%) in 2006. The increase in operating margins of 103.5 percentage points in 2007 is primarily a result of the $46.7 million goodwill impairment charge (85.0 percentage points) in 2006. In addition, gross margins increased 12.2 percentage points as a result of the completion of the transfer of production lines from C.R. Bard to CONMED during 2006. The remaining increases in operating margins of 6.3 percentage points are attributable to lower costs in 2007 associated with acquisition-related costs (4.6 percentage points), lower research and development expenses as certain biliary and other projects near completion (2.0 percentage points) and other selling and administrative expenses (2.6 percentage points) offset by charges related to closure of a sales office in France (2.9 percentage points).
- Operating margins as a percentage of net sales declined to (115.3%) in 2006 from (9.4%) in 2005. Selling and administrative and research and development expenses increased 5.0 and 1.4 percentage points, respectively, as expenses increased while net sales declined. Additionally, as discussed above, production and operational issues associated with the transfer of production lines from C.R. Bard to CONMED resulted in product shortages and backorders, reduced sales and a decrease in gross margin of 14.5 percentage points. As a result of these factors and the resulting operating losses, we determined during our testing of goodwill in the fourth quarter of 2006, that the goodwill of our Endoscopic Technologies business was impaired, resulting in an impairment charge of $46.7 million (85.0 percentage points).

Liquidity and Capital Resources

Our liquidity needs arise primarily from capital investments, working capital requirements and payments on indebtedness under our 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 $201.7 million at December 31, 2007. Net cash provided by operating activities was $42.4 million, $64.7 million and $65.9 million for 2005, 2006 and 2007, respectively.

Net cash provided by operating activities increased $1.2 million in 2007 as compared to 2006. The increase in net income in 2007 did not translate directly into a significant increase in operating cash flows given the non-cash nature of the goodwill impairment charge recognized in 2006. The increase in net income was further offset by increases in inventory levels from their 2006 levels mainly in our arthroscopy and powered instrument product lines in anticipation of continued sales growth and to accommodate sales orders for new products as well as a $7.0 million increase in funding of the pension plan in 2007.

Investing Cash Flows

Capital expenditures were $16.2 million, $21.9 million and $20.9 million for 2005, 2006 and 2007, respectively. Capital expenditures in 2007 were consistent with 2006 levels and higher than 2005 primarily due to technology upgrades including the ongoing implementation of an enterprise business software application. Capital expenditures are expected to approximate $21.0 million in 2008.

The purchase of a business resulted in a $4.6 million payment while a purchase price adjustment resulted in a payment of $1.3 million in additional consideration in 2007. The sale of an equity investment resulted in proceeds of $1.2 million in 2006. The purchase of a distributor's business resulted in a $2.5 million payment in 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.

Financing Cash Flows

Net cash provided by (used in) financing activities during 2007 consisted of the following: $11.4 million in proceeds from the issuance of common stock under our equity compensation plans and employee stock purchase plan (See Note 7 to the Consolidated Financial Statements), $44.0 million in repayments of term borrowings under our senior credit agreement, a $1.8 million net change in cash overdrafts and $1.0 million in payments on mortgage notes.

During 2006, we entered into an amended and restated $235.0 million senior credit agreement (the "amended and restated senior credit agreement"). The amended and restated senior credit agreement consists of a $100.0 million revolving credit facility and a $135.0 million term loan. There were no borrowings outstanding on the revolving credit facility as of December 31, 2007. Our available borrowings on the revolving credit facility at December 31, 2007 were $95.0 million with approximately $5.0 million of the facility set aside for outstanding letters of credit. There were $59.0 million in borrowings outstanding on the term loan at December 31, 2007. The proceeds of the term loan portion of the amended and restated senior credit agreement were used to repay borrowings outstanding on the term loan and revolving credit facility of $142.5 million under the previously existing senior credit agreement. In connection with the refinancing, we recorded a $0.7 million loss on early extinguishment of debt of which $0.2 million related to the write-off of unamortized deferred financing costs under the previously existing senior credit agreement and $0.5 million related to financing costs associated with the amended and restated senior credit agreement.

The scheduled principal payments on the term loan portion of the senior credit agreement are $1.4 million annually through December 2011, increasing to $53.6 million in 2012 with the remaining balance outstanding due and payable on April 12, 2013. We may also be required, under certain circumstances, to make additional principal payments based on excess cash flow as defined in the senior credit agreement. Interest rates on the term loan portion of the senior credit agreement are at LIBOR plus 1.50% (6.34% at December 31, 2007) or an alternative base rate; interest rates on the revolving credit facility portion of the senior credit agreement are at LIBOR plus 1.375% or an alternative base rate. For those borrowings where the Company elects to use the alternative base rate, the base rate will be the greater of the Prime Rate or the Federal Funds Rate in effect on such date plus 0.50%, plus a margin of 0.50% for term loan borrowings or 0.375% for borrowings under the revolving credit facility.

The senior credit agreement is collateralized by substantially all of our personal property and assets, except for our accounts receivable and related rights which are pledged in connection with our accounts receivable sales agreement. The senior credit agreement contains covenants and restrictions which, among other things, require the maintenance of certain financial ratios, and restrict dividend payments and the incurrence of certain indebtedness and other activities, including acquisitions and dispositions. We were in full compliance with these covenants and restrictions as of December 31, 2007. 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 semi-annual payments of principal and interest through June 2009 (the "Class A note"); and a note bearing interest at 8.25% per annum compounded semi-annually through June 2009, after which semi-annual payments of principal and interest will commence, continuing through June 2019 (the "Class C note"). The principal balances outstanding on the Class A note and Class C note aggregated $3.4 million and $10.4 million, respectively, at December 31, 2007. These mortgage notes are secured by the CONMED Linvatec property and facilities.

We have outstanding $150.0 million in 2.50% convertible senior subordinated notes (the "Notes") due 2024. 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). As of December 31, 2007, there was no value assigned to the conversion feature because the Company's share price was below the conversion price. 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 statements of operations. 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, results of operations or cash flows.

Our Board of Directors has authorized a share repurchase program under which we may repurchase up to $50.0 million of our common stock in any calendar year. We did not repurchase any shares during 2007. In the past, we have financed the repurchases and may 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. See Business Forward Looking Statements.

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, 2006 and 2007, the undivided percentage ownership interest in receivables sold by CRC to the purchaser aggregated $44.0 million and $45.0 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 $1.9 million, $2.3 million and $2.9 million, in 2005, 2006 and 2007, respectively, and are included in interest expense.

There are certain statistical ratios, primarily related to sales dilution and losses on accounts receivable, which must be calculated and maintained on the pool of receivables in order to continue selling to the purchaser. The pool of receivables is in full compliance with these ratios. Management believes that additional accounts receivable arising in the normal course of business will be of sufficient quality and quantity to meet the requirements for sale under the accounts receivables sales agreement. In the event that new accounts receivable arising in the normal course of business do not qualify for sale, then collections on sold receivables will flow to the purchaser rather than being used to fund new receivable purchases. To the extent that such collections would not be available to CONMED in the form of new receivables purchases, we would need to access an alternate source of working capital, such as our $100 million revolving credit facility. Our accounts receivable sales agreement, as amended, also requires us to obtain a commitment (the "purchaser commitment") from the purchaser to fund the purchase of our accounts receivable. The purchaser commitment was amended effective December 28, 2007 whereby it was extended through October 31, 2009 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, 2007.

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt	$ 222,834	$ 3,349	$ 5,359	$ 56,801	$ 157,325
Purchase obligations	54,697	54,021	676	—	—
Operating lease obligations	16,558	3,984	5,260	3,824	3,490
Total contractual obligations	$ 294,089	$ 61,354	$ 11,295	$ 60,625	$ 160,815

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 5 to the Consolidated Financial Statements). The above table does not include required contributions to our pension plan in 2008, which are expected to be in the range of $1.6 million to $7.1 million. (See Note 9 to the Consolidated Financial Statements). The above table also does not include unrecognized tax benefits of approximately $0.4 million, the timing and certainty of recognition for which is uncertain. (See Note 6 to the Consolidated Financial Statements).

Stock-Based Compensation

We have reserved shares of common stock for issuance to employees and directors under three shareholder-approved, share-based compensation plans (the "Plans"). The Plans provide for grants of options, stock appreciation rights ("SARs"), dividend equivalent rights, restricted stock, restricted stock units ("RSUs"), and other equity-based and equity-related awards. The exercise price on all outstanding options and SARs is equal to the quoted fair market value of the stock at the date of grant. RSUs are valued at the market value of the underlying stock on the date of grant. Stock options, SARs and RSUs are non-transferable other than on death and generally become exercisable over a five year period from date of grant. Stock options and SARs expire ten years from date of grant. SARs are only settled in shares of the Company's stock. (See Note 7 to the Consolidated Financial Statements).

New Accounting Pronouncements

See Note 13 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, 2007, we had entered into foreign exchange forward contracts to exchange Canadian dollars for United States dollars to hedge our intercompany exposure related to our Canadian subsidiary. These forward contracts settle each month at month-end, at which time we enter into new forward contracts. We have not designated these forward contracts as hedges and have not entered into any other foreign exchange forward or option contracts. 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 2007, changes in foreign currency exchange rates increased sales by approximately $15.2 million and income (loss) before income taxes by approximately $12.2 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, 2007, we had approximately $59.0 million of variable rate long-term debt outstanding under our senior credit agreement and an additional $45.0 million in accounts receivable sold under our accounts receivable sales agreement; we are not a party to any interest rate swap agreements as of December 31, 2007. Assuming no repayments other than our 2008 scheduled term loan payments, if market interest rates for similar borrowings and accounts receivable sales averaged 1.0% more in 2008 than they did in 2007, interest expense would increase, and income (loss) before income taxes would decrease by $1.0 million. Comparatively, if market interest rates for similar borrowings average 1.0% less in 2008 than they did in 2007, our interest expense would decrease, and income (loss) before income taxes would increase by $1.0 million.

Business Forward-Looking Statements

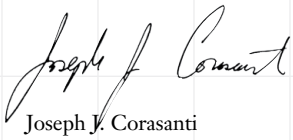
This Annual Report for the Fiscal Year Ended December 31, 2007 contains certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) and information relating to CONMED Corporation ("CONMED," the "Company," "we" or "us" — references to "CONMED," the "Company," "we" or "us" shall be deemed to include our direct and indirect subsidiaries unless the context otherwise requires) 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:

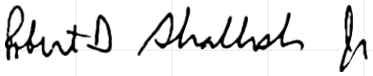
- general economic and business conditions;
- cyclical customer purchasing patterns due to budgetary and other constraints;
- changes in customer preferences;
- competition;
- changes in technology;
- the introduction and acceptance of new products;
- the ability to evaluate, finance and integrate acquired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

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, 2007. 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, 2007. The effectiveness of the Company's internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.



Joseph J. Corasanti
President 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:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of CONMED Corporation and its subsidiaries at December 31, 2007 and December 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report On Internal Control Over Financial Reporting". Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 7 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006. As discussed in Note 9 to the consolidated financial statements, the Company changed the manner in which it accounts for its defined benefit pension plan in 2006.

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

Buffalo, New York
February 26, 2008

PRICEWATERHOUSECOOPERS

Consolidated Balance Sheets

December 31, 2006 and 2007
(In thousands except share and per share amounts)

	2006	2007
Assets		
Current assets:		
Cash and cash equivalents	$ 3,831	$ 11,695
Accounts receivable, less allowance for doubtful accounts of $1,210 in 2006 and $787 in 2007	75,120	80,642
Inventories	151,687	164,969
Income taxes receivable	747	1,425
Deferred income taxes	10,008	11,697
Prepaid expenses and other current assets	8,490	8,594
Total current assets	249,883	279,022
Property, plant and equipment, net	116,480	123,679
Goodwill, net	290,512	289,508
Other intangible assets, net	191,135	191,807
Other assets	13,561	9,935
Total assets	$ 861,571	$ 893,951
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 3,148	$ 3,349
Accounts payable	41,823	38,987
Accrued compensation and benefits	17,712	19,724
Accrued interest	727	695
Other current liabilities	11,795	14,529
Total current liabilities	75,205	77,284
Long-term debt	264,676	219,485
Deferred income taxes	51,004	71,188
Other long-term liabilities	30,332	20,992
Total liabilities	421,217	388,949
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; 31,304,203 and 31,299,203, issued in 2006 and 2007, respectively	313	313
Paid-in capital	284,858	287,926
Retained earnings	247,425	284,850
Accumulated other comprehensive income (loss)	(8,612)	(505)
Less: Treasury stock, at cost; 3,321,545 and 2,684,163 shares in 2006 and 2007, respectively	(83,630)	(67,582)
Total shareholders' equity	440,354	505,002
Total liabilities and shareholders' equity	$ 861,571	$ 893,951

See notes to consolidated financial statements.

Consolidated Statements of Operations

Years Ended December 31, 2005, 2006 and 2007
(In thousands except per share amounts)

	2005	2006	2007
Net sales	$ 617,305	$ 646,812	$ 694,288
Cost of sales	304,284	333,966	345,163
Gross profit	313,021	312,846	349,125
Selling and administrative expense	216,685	234,832	240,541
Research and development expense	25,469	30,715	30,400
Impairment of goodwill	—	46,689	—
Other expense (income)	7,119	5,213	(2,807)
	249,273	317,449	268,134
Income (loss) from operations	63,748	(4,603)	80,991
Loss on early extinguishment of debt	—	678	—
Interest expense	15,578	19,120	16,234
Income (loss) before income taxes	48,170	(24,401)	64,757
Provision (benefit) for income taxes	16,176	(11,894)	23,301
Net income (loss)	$ 31,994	$ (12,507)	$ 41,456
Earnings (loss) per share			
Basic	$ 1.09	$ (.45)	$ 1.46
Diluted	1.08	(.45)	1.43

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2005, 2006 and 2007
(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, 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
Common stock issued under employee plans	167	2	2,729				2,731
Tax benefit arising from common stock issued under employee plans			139				139
Stock-based compensation			3,709				3,709
Repurchase of common stock						(7,848)	(7,848)
Comprehensive income:							
Foreign currency translation adjustments					3,375		
Minimum pension liability (net of income tax expense of $1,330)					3,092		
Net income				(12,507)			
Total comprehensive income (loss)							(6,040)
Adjustment to initially apply SFAS No. 158 (net of income tax benefit of $3,132)					(5,343)		(5,343)
Balance at December 31, 2006	31,304	$ 313	$ 284,858	$ 247,425	$ (8,612)	$ (83,630)	$ 440,354
Common stock issued under employee plans	(5)		(662)	(4,031)		16,048	11,355
Tax benefit (expense) arising from common stock issued under employee plans			(41)				(41)
Stock-based compensation			3,771				3,771
Comprehensive income (loss):							
Foreign currency translation adjustments					5,284		
Minimum pension liability (net of income tax expense of $1,654)					2,823		
Net income (loss)				41,456			
Total comprehensive income (loss)							49,563
Balance at December 31, 2007	31,299	$ 313	$ 287,926	$ 284,850	$ (505)	$ (67,582)	$ 505,002

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2005, 2006 and 2007
(In thousands)

	2005	2006	2007
Cash flows from operating activities:			
Net income (loss)	$ 31,994	$ (12,507)	$ 41,456
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	12,466	11,738	13,101
Amortization	18,320	18,113	18,433
Stock-based compensation	—	3,709	3,771
Goodwill impairment	—	46,689	—
Deferred income taxes	10,128	(12,164)	16,714
Income tax benefit of stock option exercises	4,742	139	—
Contributions to pension plans less than (in excess of) net pension cost	2,062	1,877	(5,112)
Loss on extinguishment of debt	—	203	—
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	(9,000)	4,000	1,000
Accounts receivable	266	(126)	(6,301)
Inventories	(33,620)	(9,380)	(22,621)
Accounts payable	8,273	7,016	(2,414)
Income taxes receivable	675	(2,069)	3,118
Accrued compensation and benefits	(194)	5,251	2,012
Accrued interest	347	(368)	(32)
Other assets	(4,402)	(1,582)	(83)
Other liabilities	(417)	4,172	2,852
	10,440	77,218	24,438
Net cash provided by operating activities	42,434	64,711	65,894
Cash flows from investing activities:			
Payments related to business acquisitions, net of cash acquired	(372)	(2,466)	(5,933)
Proceeds from sale of equity investment	—	1,205	—
Purchases of property, plant and equipment, net	(16,242)	(21,895)	(20,910)
Net cash used in investing activities	(16,614)	(23,156)	(26,843)
Cash flows from financing activities:			
Net proceeds from common stock issued under employee plans	16,998	2,731	11,355
Repurchase of common stock	(45,374)	(7,848)	—
Payments on senior credit agreement	(29,917)	(173,160)	(44,000)
Proceeds of senior credit agreement	43,000	135,000	—
Payments on mortgage notes	(754)	(867)	(990)
Payments related to issuance of debt	(185)	(1,260)	—
Net change in cash overdrafts	(6,102)	1,166	(1,770)
Net cash provided by (used in) financing activities	(22,334)	(44,238)	(35,405)
Effect of exchange rate changes on cash and cash equivalents	(4,221)	3,060	4,218
Net increase (decrease) in cash and cash equivalents	(735)	377	7,864
Cash and cash equivalents at beginning of year	4,189	3,454	3,831
Cash and cash equivalents at end of year	$ 3,454	$ 3,831	$ 11,695
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 13,794	$ 18,247	$ 14,386
Income taxes	3,921	2,168	4,172

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 doubtful 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

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, 2006 and 2007, the undivided percentage ownership interest in receivables sold by CRC to the purchaser aggregated $44.0 million and $45.0 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 $1.9 million, $2.3 million and $2.9 million, in 2005, 2006 and 2007, 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") from the purchaser to fund the purchase of our accounts receivable. The purchaser commitment was amended effective December 28, 2007 whereby it was extended through October 31, 2009 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 (53.8% at December 31, 2007) 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"). It is our policy to perform annual impairment tests in the fourth quarter. These tests resulted in an impairment charge of $46.7 million in the fourth quarter ending December 31, 2006. See Note 4 for additional discussion.

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.

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 $133.7 million and $134.8 million at December 31, 2006 and 2007, 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 (loss).

Forward Foreign Exchange Contracts

We have a forward contract program to exchange Canadian dollars for United States dollars in order to hedge our intercompany exposure related to our Canadian subsidiary. These forward contracts settle each month at month-end, at which time we enter into new forward contracts. We have not designated these forward contracts as hedges. We have a forward contract with a notional contract amount of $14.7 million outstanding at December 31, 2007. Net realized losses in connection with these forward contracts approximated $1.1 million for the year ended December 31, 2007 and is recorded in selling and administrative expense in the Consolidated Statements of Operations. We mark outstanding forward contracts to market. The market value for forward foreign exchange contracts outstanding at December 31, 2007 was not material.

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 and operating loss and tax credit carryforwards as measured by the enacted tax rates that are anticipated to be in effect in the respective jurisdictions 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 not likely.

Deferred taxes are not provided on the unremitted earnings of subsidiaries outside of the United States when it is expected that these earnings are permanently reinvested. Such earnings may become taxable upon the sale or liquidation of these subsidiaries or upon the remittance of dividends. Deferred taxes are provided when the Company no longer considers subsidiary earnings to be permanently invested, such as in situations where the Company's subsidiaries plan to make future dividend distributions.

On January 1, 2007 we adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The impact of this pronouncement was not material to the Company's consolidated financial statements. See Note 6 to the Consolidated Financial Statements for further discussion.

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 $11.2 million, $14.3 million and $14.1 million for 2005, 2006 and 2007, 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 $0.8 million at December 31, 2007 is adequate to provide for probable losses resulting from accounts receivable.

Earnings (loss) per share

Basic earnings per share ("basic EPS") is computed by dividing net income (loss) 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, restricted stock units and stock appreciation rights during the period. In the 2006 period, incremental shares are not included in computing diluted EPS because to do so would have reduced the net loss per share. The following table sets forth the calculation of basic and diluted earnings per share at December 31, 2005, 2006 and 2007, respectively:

	2005	2006	2007
Net income (loss)	$ 31,994	$ (12,507)	$ 41,456
Basic-weighted average shares outstanding	29,300	27,966	28,416
Effect of dilutive potential securities	436	—	549
Diluted-weighted average shares outstanding	29,736	27,966	28,965
Basic EPS	$ 1.09	$ (.45)	$ 1.46
Diluted EPS	$ 1.08	$ (.45)	$ 1.43

The shares used in the calculation of diluted EPS exclude options to purchase shares where the exercise price was greater than the average market price of common shares for the year. Such shares aggregated approximately 0.6 million at December 31, 2005 and 2007, 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, 2007, 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 5 for further discussion of the Notes.

Stock-based compensation

We adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R") effective January 1, 2006. SFAS 123R requires that all share-based payments

to employees, including grants of employee stock options, restricted stock units, and stock appreciation rights be recognized in the financial statements based on their fair values. Prior to January 1, 2006, we accounted for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25"). No compensation expense was recognized for stock options under the provisions of APB 25 since all options granted had an exercise price equal to the market value of the underlying stock on the grant date.

SFAS 123R was adopted using the modified prospective transition method. Under this method, the provisions of SFAS 123R apply to all awards granted or modified after the date of adoption. In addition, compensation expense must be recognized for any nonvested stock option awards outstanding as of the date of adoption. We recognize such expense using a straight-line method over the vesting period. Prior periods have not been restated.

We elected to adopt the alternative transition method, as permitted by FASB Staff Position No. FAS 123R-3 "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards," to calculate the tax effects of stock-based compensation pursuant to SFAS 123R for those employee awards that were outstanding upon adoption of SFAS 123R. The alternative transition method allows the use of a simplified method to calculate the beginning pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123R. The Company's policy for intra-period tax allocation is the with and without approach for utilization of tax attributes.

During 2007, we began issuing shares under our stock-based compensation plans out of treasury stock whereby treasury stock is reduced by the weighted average cost of such treasury stock. To the extent there is a difference between the cost of the treasury stock and the exercise price of shares issued under stock-based compensation plans, we record gains to paid in capital; losses are recorded to paid in capital to the extent any gain was previously recorded, otherwise the loss is recorded to retained earnings.

Accumulated other comprehensive income (loss)

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

	Pension Liability	Cumulative Translation Adjustments	Accumulated Other Comprehensive Income (loss)
Balance, December 31, 2006	$ (12,386)	$ 3,774	$ (8,612)
Foreign currency translation adjustments	—	5,284	5,284
Minimum pension liability (net of income taxes)	2,823	—	2,823
Balance, December 31, 2007	$ (9,563)	$ 9,058	$ (505)

Note 2 — Inventories

Inventories consist of the following at December 31,:

	2006	2007
Raw materials	$ 50,225	$ 60,081
Work in process	17,815	18,669
Finished goods	83,647	86,219
	$ 151,687	$ 164,969

Note 3 — Property, Plant and Equipment

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

	2006	2007
Land	$ 4,200	$ 4,200
Building and improvements	84,944	88,564
Machinery and equipment	101,218	109,368
Construction in progress	11,281	14,103
	201,643	216,235
Less: Accumulated depreciation	(85,163)	(92,556)
	$ 116,480	$ 123,679

We lease various manufacturing facilities, office facilities and equipment under operating leases. Rental expense on these operating leases was approximately $2,727, $3,269 and $3,724 for the years ended December 31, 2005, 2006 and 2007, respectively. The aggregate future minimum lease commitments for operating leases at December 31, 2007 are as follows:

2008	$ 3,984
2009	3,012
2010	2,248
2011	2,094
2012	1,730
Thereafter	3,490

Note 4 — Goodwill and Other Intangible Assets

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

	2006	2007
Balance as of January 1,	$ 335,651	$ 290,512
Goodwill impairment	(46,689)	—
Adjustments to goodwill resulting from tax benefits recognized	—	(2,192)
Adjustments to goodwill resulting from business acquisitions finalized	1,705	671
Foreign currency translation	(155)	517
Balance as of December 31,	$ 290,512	$ 289,508

In September 2004, we acquired the business operations of the Endoscopic Technologies Division of C.R. Bard, Inc. (the "Endoscopic Technologies acquisition") for aggregate consideration of $81.3 million in cash. The Endoscopic Technologies acquisition involved the transfer of substantially all of the Endoscopic Technologies production lines from C.R. Bard facilities to CONMED facilities. This transfer proved to be more time-consuming, costly and complex than was originally anticipated. In addition, production and operational issues at an assembly operation in Mexico under contract to CONMED resulted in product shortages and backorders. These operational issues, in combination with increased competition and pricing pressures in the marketplace resulted in decreased sales and gross margins and operating losses. As a result of these factors, during our fourth quarter 2006 goodwill impairment testing, we determined that the goodwill of our Endoscopic Technologies operating unit was impaired and consequently we recorded a goodwill impairment charge of $46.7 million to reduce the carrying amount of the unit to its fair value. We estimated the fair value of the Endoscopic Technologies operating unit using a discounted cash flow valuation methodology and measured the goodwill impairment in accordance with SFAS 142.

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

	2006	2007
CONMED Electrosurgery	$ 16,645	$ 16,645
CONMED Endosurgery	42,419	42,439
CONMED Linvatec	173,007	171,332
CONMED Patient Care	58,441	59,092
Balance as of December 31,	$ 290,512	$ 289,508

Other intangible assets consist of the following:

	Dec. 31, 2006		Dec. 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	$ 113,376	$ (24,498)	$ 118,124	$ (28,000)
Patents and other intangible assets	39,609	(24,696)	39,812	(26,473)
Unamortized intangible assets:				
Trademarks and tradenames	87,344	—	88,344	—
	$ 240,329	$ (49,194)	$ 246,280	$ (54,473)

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 25 years. Customer relationships are being amortized over a weighted average life of 36 years. Patents and other intangible assets are being amortized over a weighted average life of 11 years.

Customer relationship assets were acquired primarily in connection with the 1997 acquisition of Linvatec Corporation, the 2003 acquisition of Bionx Implants, Inc. and the 2004 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 36 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 36 year life.

Trademarks and tradenames were recognized primarily in connection with the 1997 acquisition of Linvatec Corporation, the 2003 acquisition of Bionx Implants, Inc. and the 2004 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, 2007 and estimated amortization expense for each of the five succeeding years is as follows:

2007	$ 5,647
2008	5,893
2009	5,893
2010	5,547
2011	5,094
2012	5,037

Note 5 — Long-Term Debt

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

	2006	2007
Revolving line of credit	$ —	$ —
Term loan borrowings on senior credit facility	102,988	58,988
2.50% Convertible senior subordinated notes	150,000	150,000
Mortgage notes	14,836	13,846
Total long-term debt	267,824	222,834
Less: Current portion	3,148	3,349
	$ 264,676	$ 219,485

During 2006, we entered into an amended and restated $235.0 million senior credit agreement (the "amended and restated senior credit agreement"). The amended and restated senior credit agreement consists of a $100.0 million revolving credit facility and a $135.0 million term loan. There were no borrowings outstanding on the revolving credit facility as of December 31, 2007. Our available borrowings on the revolving credit facility at December 31, 2007 were $95.0 million with approximately $5.0 million of the facility set aside for outstanding letters of credit. There were $59.0 million in borrowings outstanding on the term loan at December 31, 2007. The proceeds of the term loan portion of the amended and restated senior credit agreement were used to repay borrowings outstanding on the term loan and revolving credit facility of $142.5 million under the previously existing senior credit agreement. In connection with the refinancing, we recorded a $0.7 million loss on early extinguishment of debt of which $0.2 million related to the write-off of unamortized deferred financing costs under the previously existing senior credit agreement and $0.5 million related to financing costs associated with the amended and restated senior credit agreement.

The scheduled principal payments on the term loan portion of the senior credit agreement are $1.4 million annually through December 2011, increasing to $53.6 million in 2012 with the remaining balance outstanding due and payable on April 12, 2013. We may also be required, under certain circumstances, to make additional principal payments based on excess cash flow as defined in the senior credit agreement. Interest rates on the term loan portion of the senior credit agreement are at LIBOR plus 1.50% (6.34% at December 31, 2007) or an alternative base rate; interest rates on the revolving credit facility portion of the senior credit agreement are at LIBOR plus 1.375% or an alternative base rate. For those borrowings where the Company elects to use the alternative base rate, the base rate will be the greater of the Prime Rate or the Federal Funds Rate in effect on such date plus 0.50%, plus a margin of 0.50% for term loan borrowings or 0.375% for borrowings under the revolving credit facility.

The senior credit agreement is collateralized by substantially all of our personal property and assets, except for our accounts receivable and related rights which are pledged in connection with our accounts receivable sales agreement. The senior credit agreement contains covenants and restrictions which, among other things, require the maintenance of certain financial ratios, and restrict dividend payments and the incurrence of certain indebtedness and other activities, including acquisitions and dispositions. We were in full compliance with these covenants and restrictions as of December 31, 2007. 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 semi-annual payments of principal and interest through June 2009 (the "Class A note"); and a note bearing interest at 8.25% per annum compounded semi-annually through June 2009, after which semi-annual payments of principal and interest will commence, continuing through June 2019 (the "Class C note"). The principal balances outstanding on the Class A note and Class C note aggregated $3.4 million and $10.4 million, respectively, at December 31, 2007. These mortgage notes are secured by the CONMED Linvatec property and facilities.

We have outstanding $150.0 million in 2.50% convertible senior subordinated notes (the "Notes") due 2024. 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). As of December 31, 2007, there was no value assigned to the conversion feature because the Company's share price was below the conversion price. 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 statements of operations. 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, results of operations, or cash flows.

The scheduled maturities of long-term debt outstanding at December 31, 2007 are as follows:

2008	$ 3,349
2009	3,185
2010	2,174
2011	2,244
2012	54,557
Thereafter	157,325

Note 6 — Income Taxes

The provision for income taxes for the years ended December 31, 2005, 2006 and 2007 consists of the following:

	2005	2006	2007
Current tax expense:			
Federal	$ 3,083	$ (2,582)	$ 2,634
State	795	1,006	1,102
Foreign	2,170	1,846	2,851
	6,048	270	6,587
Deferred income tax expense	10,128	(12,164)	16,714
Provision for income taxes	$ 16,176	$ (11,894)	$ 23,301

A reconciliation between income taxes computed at the statutory federal rate and the provision for income taxes for the years ended December 31, 2005, 2006 and 2007 follows:

	2005	2006	2007
Tax provision at statutory rate based on income (loss) before income taxes	35.00%	(35.00)%	35.00%
Extraterritorial income exclusion	(2.78)	(5.39)	—
State income taxes	0.66	(3.24)	1.78
Stock-based compensation	—	3.49	0.56
Research and development credit	(.53)	(3.87)	(1.23)
Settlement of taxing authority examinations	—	(6.08)	(0.97)
Other nondeductible permanent differences	0.85	1.81	0.63
Other, net	0.38	(0.46)	0.21
	33.58%	(48.74)%	35.98%

The tax effects of the significant temporary differences which comprise the deferred tax assets and liabilities at December 31, 2006 and 2007 are as follows:

	2006	2007
Assets:		
Inventory	$ 5,695	$ 4,817
Net operating losses	13,707	6,903
Deferred compensation	2,680	3,162
Accounts receivable	3,134	2,960
Accrued pension	7,259	5,604
Research and development credit	1,980	2,200
State taxes	156	—
Other	2,043	3,495
Valuation allowance	(6,892)	(4,209)
	29,762	24,932
Liabilities:		
Goodwill and intangible assets	59,969	70,653
Depreciation	5,329	4,949
Employee benefits	103	287
State taxes	—	360
Contingent interest	5,357	8,174
	70,758	84,423
Net liability	$ (40,996)	$ (59,491)

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

	2005	2006	2007
U.S. income (loss)	$ 42,653	$ (29,659)	$ 57,664
Foreign income	5,517	5,258	7,093
Total income (loss)	$ 48,170	$ (24,401)	$ 64,757

The net operating loss carryforwards of acquired subsidiaries begin to expire in 2008. These net operating loss carryforwards are subject to pre-existing ownership change limitations under IRC section 382 as a result of the purchase of stock of these acquired subsidiaries. We have established a valuation allowance to reflect the uncertainty of realizing the benefits of certain net operating loss carryforwards recognized in connection with an acquisition. Any subsequently recognized tax benefits associated with the valuation allowance would be allocated to reduce goodwill. However, upon adoption of Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" ("SFAS 141R") on January 1, 2009, changes in deferred tax valuation allowances and income tax uncertainties after the acquisition date, including those associated with acquisitions that closed prior to the effective date of SFAS 141R, generally will affect income tax expense.

During 2007, we reduced our valuation allowance for the portion of the net operating loss carryforward for which we determined utilization is more likely than not. This amount totaled $2.2 million. See Note 4 for additional discussion.

The gross amount of Federal net operating loss carryforwards available is $17.7 million. This includes $6.7 million of net operating loss carryforwards from acquired subsidiaries as discussed above. The remaining $11.0 million begins to expire in 2026. Approximately $5.7 million of the gross Federal net operating loss is attributable to stock-based compensation windfall tax deductions. In accordance with SFAS 123R, the $2.0 million windfall tax benefit on the $5.7 million net operating loss carryforward has not been recorded as a deferred tax asset. The $2.0 million tax benefit will be recorded in additional paid-in capital when realized.

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 Federal income tax returns have been examined by the Internal Revenue Service ("IRS") for calendar years ending through 2006. During 2007, Internal Revenue Service examinations were settled for tax years 2005 and 2006. The net effect of the settlement of these examinations, was a $0.6 million reduction in income tax expense in 2007.

We have not provided for federal income taxes on undistributed earnings of our foreign subsidiaries as it remains our intention to permanently reinvest such earnings (approximately $24.9 million at December 31, 2007.) It is not practicable given the complexities of the foreign tax credit calculation to estimate the tax due upon any possible repatriation.

On January 1, 2007 we adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The impact of this pronouncement was not material to the Company's consolidated financial statements.

The following table summarizes the activity related to our unrecognized tax benefits:

	2007
Balance as of January 1,	$1,359
Decrease for positions taken in prior periods	(164)
Increases for positions taken in current periods	1,410
Decreases in unrecorded tax positions related to settlement with the taxing authorities	(739)
Balance as of December 31,	$1,866

Included in the unrecognized tax benefits of $1.9 million at December 31, 2007 was $0.5 million of tax benefits that, if recognized, would reduce our annual effective tax rate. The amount of interest accrued in 2007 related to these unrecognized tax benefits was not material and is included in the provision for income taxes in the Consolidated Statements of Operations. It is reasonably possible that the amount of unrecognized tax benefits could change in the next 12 months as a result of the anticipated completion of the 2007 IRS examination and expiration of statutes of limitations on prior tax returns. A reasonable estimate of the range of change in unrecognized tax benefits cannot be made at this time.

Note 7 — Shareholders' Equity

Our 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, 2006 and 2007, no preferred stock had been issued.

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. Through December 31, 2006, we have repurchased a total of 2.2 million shares of common stock. No stock repurchases were made in 2007 under this authorization.

We have reserved 4.7 million shares of common stock for issuance to employees and directors under three shareholder-approved share-based compensation plans (the "Plans") of which approximately 639,000 shares remain available for grant at December 31, 2007. The exercise price on all outstanding options and SARs is equal to the quoted fair market value of the stock at the date of grant. RSUs are valued at the market value of the underlying stock on the date of grant. Stock options, SARs and RSUs are non-transferable other than on death and generally become exercisable over a five year period from date of grant. Stock options and SARs expire ten years from date of grant. SARs are only settled in shares of the Company's stock. The issuance of shares pursuant to the exercise of stock options and SARs and vesting of RSUs are from the Company's treasury stock.

Total pre-tax stock-based compensation expense recognized in the Consolidated Statements of Operations was $3.7 million and $3.8 million for the year ended December 31, 2006 and 2007, respectively. This amount is included in selling and administrative expenses on the Consolidated Statements of Operations. Tax related benefits of $0.4 million and $0.8 million were also recognized for the years ended December 31, 2006 and 2007. Cash received from the exercise of stock options and SARs was $15.9 million, $1.7 million and $11.3 million for the years ended December 31, 2005, 2006 and 2007, respectively and is reflected in cash flows from financing activities in the Consolidated Statements of Cash Flows.

The weighted average fair value of awards of options and SARs granted in the years ended December 31, 2005, 2006 and 2007 was $16.51, $8.92 and $11.88, respectively. The fair value of these options and SARs was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for options and SARs granted in the years ended December 31, 2005, 2006 and 2007, respectively: risk-free interest rate of 4.16%, 5.13% and 4.56%; volatility factor of the expected market price of the Company's common stock of 53.26%, 37.79% and 32.61%; a weighted-average expected life of the option and SAR of 5.7 years for all three years; and that no dividends would be paid on common stock. The risk free interest rate is based on the option and SAR grant date for a traded zero-coupon U.S. Treasury bond with a maturity date equal to the expected life. Expected volatilities are based upon historical volatility of the Company's stock over a period equal to the expected life of each option and SAR grant. The expected life selected for options and SARs granted during the year ended December 31, 2007 represents the period of time that the options and SARs are expected to be outstanding based on a study of historical data of option holder exercise and termination behavior.

The following table illustrates the stock option and SAR activity for the year ended December 31, 2007. There were no SARs granted prior to 2006.:

	Number of Shares (in 000's)	Weighted-Average Exercise Price
Outstanding at December 31, 2006	3,166	$ 22.23
Granted	194	29.96
Forfeited	(71)	26.56
Exercised	(600)	18.60
Outstanding at December 31, 2007	2,689	$ 23.46
Exercisable at December 31, 2007	1,949	$ 22.66

The weighted average remaining contractual term for stock options and SARs outstanding and exercisable at December 31, 2007 was 5.8 years and 5.0 years, respectively. The aggregate intrinsic value of stock options and SARs outstanding and exercisable at December 31, 2007 was $5.8 million and $4.8 million, respectively. The aggregate intrinsic value of stock options and SARs exercised during the year ended December 31, 2005, 2006 and 2007 was $12.9 million, $0.7 million and $6.7 million, respectively.

The following table illustrates the RSU activity for the year ended December 31, 2007. There were no RSUs granted prior to 2006.

	Number of Shares (in 000's)	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2006	144	$ 20.22
Granted	155	29.13
Vested	(28)	20.19
Forfeited	(6)	23.10
Outstanding at December 31, 2007	265	$ 25.20

The total fair value of shares vested was $0 and $0.6 million for the years ended December 31, 2006 and 2007, respectively.

As of December 31, 2007, there was $12.0 million of total unrecognized compensation cost related to nonvested stock options, SARs and RSUs granted under the Plan which is expected to be recognized over 5.0 years (weighted average period of 1.9 years).

The following table illustrates the effect on net earnings and earnings per share as if we had applied the fair value recognition provisions of SFAS 123R to stock-based employee compensation for the year ended December 31, 2005. The pro forma disclosures are based on the fair value of awards at the grant date, amortized to expense over the service period.

	2005
Net income — as reported	$ 31,994
Pro forma stock-based employee compensation expense, net of related income tax effect	(4,075)
Net income — pro forma	$ 27,919
Earnings per share — as reported:	
Basic	$ 1.09
Diluted	$ 1.08
Earnings per share — pro forma:	
Basic	$ 0.95
Diluted	$ 0.94

We offer to our employees 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 95% of the fair market value of the common stock on the exercise date. During 2007, we issued approximately 19,000 shares of common stock under the Employee Plan. No stock-based compensation expense has been recognized in the accompanying consolidated financial statements as a result of common stock issuances under the Employee Plan.

Note 8 — Business Segments and Geographic Areas

CONMED conducts its business through five principal operating segments, CONMED Endoscopic Technologies, CONMED Endosurgery, CONMED Electrosurgery, CONMED Linvatec and CONMED Patient Care. We believe each of our segments are similar in the nature of products, production processes, customer base, distribution methods and regulatory environment. In accordance with Statement of Financial Accounting Standards No. 131 "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"), our CONMED Endosurgery, CONMED Electrosurgery and CONMED Linvatec operating segments also have similar economic characteristics and therefore qualify for aggregation under SFAS 131. Our CONMED Patient Care and CONMED Endoscopic Technologies operating units do not qualify for aggregation under SFAS 131 since their economic characteristics do not meet the criteria for aggregation as a result of the lower overall operating income (loss) in these segments.

CONMED Endosurgery, CONMED Electrosurgery and CONMED Linvatec consist of a single aggregated segment comprising a complete line of endo-mechanical instrumentation for minimally invasive laparoscopic procedures, electrosurgical generators and related surgical instruments, arthroscopic instrumentation for use in orthopedic surgery and small bone, large bone and specialty powered surgical instruments. CONMED Patient Care product offerings include a line of vital signs and cardiac monitoring products as well as suction instruments & tubing for use in the operating room. CONMED Endoscopic Technologies product offerings include a comprehensive line of minimally invasive endoscopic diagnostic and therapeutic instruments used in procedures which require examination of the digestive tract.

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

	2005	2006	2007
Arthroscopy	$ 211,397	$ 228,195	$ 264,637
Powered Surgical Instruments	132,045	137,150	149,261
CONMED Linvatec	343,442	365,345	413,898
CONMED Electrosurgery	88,455	97,809	92,107
CONMED Endosurgery	50,694	52,783	58,829
CONMED Linvatec, Electrosurgery, and Endosurgery	482,591	515,937	564,834
CONMED Patient Care	75,879	75,883	76,711
CONMED Endoscopic Technologies	58,835	54,992	52,743
Total	$ 617,305	$ 646,812	$ 694,288

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

The following is a reconciliation between segment operating income (loss) and income (loss) before income taxes. The Corporate line includes corporate related items not allocated to operating units:

	2005	2006	2007
CONMED Linvatec, Electrosurgery, and Endosurgery	$ 69,295	$ 70,193	$ 87,569
CONMED Patient Care	5,734	(759)	2,003
CONMED Endoscopic Technologies	(5,513)	(63,399)	(6,250)
Corporate	(5,768)	(10,638)	(2,331)
Income (loss) from operations	63,748	(4,603)	80,991
Loss on early extinguishment of debt	—	678	—
Interest expense	15,578	19,120	16,234
Income (loss) before income taxes	$ 48,170	$ (24,401)	$ 64,757

Net sales information for geographic areas consists of the following:

	2005	2006	2007
United States	$ 390,050	$ 396,953	$ 404,434
Canada	36,111	43,104	55,313
United Kingdom	30,117	32,542	45,335
Japan	22,073	25,451	26,274
Australia	23,237	27,249	30,199
All other countries	115,717	121,513	132,733
Total	$ 617,305	$ 646,812	$ 694,288

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, 2006 and 2007. No single customer represented over 10% of our consolidated net sales for the years ended December 31, 2005, 2006 and 2007.

Note 9 — 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.

Total employer contributions to the 401(k) plan were $2.2 million, $2.3 million and $2.5 million during the years ended December 31, 2005, 2006 and 2007, respectively.

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

	2006	2007
Accumulated Benefit Obligation	$ 46,066	$ 47,991
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 51,420	$ 54,541
Service cost	5,444	5,863
Interest cost	2,905	3,216
Actuarial gain	(1,176)	(3,834)
Benefits paid	(4,052)	(3,194)
Projected benefit obligation at end of year	$ 54,541	$ 56,592
Change in plan assets		
Fair value of plan assets at beginning of year	$ 33,252	$ 36,894
Actual gain on plan assets	2,694	2,832
Employer contribution	5,000	12,000
Benefits paid	(4,052)	(3,194)
Fair value of plan assets at end of year	$ 36,894	$ 48,532
Funded status	$ 17,647	$ 8,059

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

	2006	2007
Accrued long-term pension liability	$ 17,647	$ 8,059
Accumulated other comprehensive income (loss)	(19,644)	(15,167)

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

	2006	2007
Discount rate	5.90%	6.48%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%

The following table illustrates the effects of adopting Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158") on each of the balance sheet line items in 2006:

	Before Application of SFAS 158	Adjustment	After Application of SFAS 158
Accrued pension liability	$ 9,172	$ 8,475	$ 17,647
Deferred income taxes	54,136	(3,132)	51,004
Total liabilities	415,874	5,343	421,217
Accumulated other comprehensive income (loss)	(3,269)	(5,343)	(8,612)
Shareholders' equity	445,697	(5,343)	440,354

Accumulated other comprehensive income (loss) for the years ended December 31, 2006 and 2007 consists of the following items not yet recognized in net periodic pension cost (before income taxes):

	2006	2007
Net actuarial loss	$ (24,792)	$ (19,969)
Transition liability	(36)	(32)
Prior service cost	5,184	4,834
Accumulated other comprehensive income (loss)	$ (19,644)	$ (15,167)

The total amounts reclassified from accumulated other comprehensive income (loss) and recognized in 2007 as a component of net periodic pension cost included net actuarial losses of $1,382, transition obligation of $4 and prior service cost (credit) of $(351).

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

	2005	2006	2007
Service cost—benefits earned during the period	$ 4,503	$ 5,444	$ 5,863
Interest cost on projected benefit obligation	2,651	2,905	3,216
Return on plan assets	(2,548)	(2,694)	(3,226)
Transition amount	4	4	4
Prior service cost	(351)	(351)	(351)
Amortization of loss	1,303	1,569	1,382
Net periodic pension cost	$ 5,562	$ 6,877	$ 6,888

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

	2005	2006	2007
Discount rate	5.75%	5.55%	5.90%
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
	2006	2007	2008
Equity securities	71%	64%	75%
Debt securities	29	36	25
Total	100%	100%	100%

As of December 31, 2007, the Plan held 27,562 shares of our common stock, which had a fair value of $0.6 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 expect to contribute approximately $12.0 million to our pension plan in 2008.

The estimated portion of net actuarial loss, net prior service cost, and transition obligation in accumulated other comprehensive income (loss) that is expected to be recognized as a component of net periodic pension cost in 2008 is $917, ($351) and $4, respectively.

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, 2007 and reflect the impact of expected future employee service.

2008	$ 2,225
2009	2,216
2010	2,972
2011	2,586
2012	3,985
2013-2017	16,431

Note 10 — 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 or foreign governments or government agencies. These subpoenae may or may not be routine inquiries, or may begin as routine inquiries and over time develop into enforcement actions of various types. The product liability 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 reserves sufficient 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, results of operations or cash flows. There can be no assurance, however, that future claims or investigations, or the costs associated with responding to such 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 product liability claims that are material to our financial statements or condition, 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, results of operations or cash flows.

On April 7, 2006, CONMED received a copy of a complaint filed in the United States District for the Northern District of New York on behalf of a purported class of former CONMED Linvatec sales representatives. The complaint alleges that the former sales representatives were entitled to, but did not receive, severance in 2003 when CONMED Linvatec restructured its distribution channels. Although we do not believe it is probable a loss has been incurred, it is reasonably possible. The range of loss associated with this complaint ranges from $0 to $3.0 million, not including any interest, fees or costs that might be awarded if the five named plaintiffs were to prevail on their own behalf as well as on behalf of the approximately 70 (or 90 as alleged by the plaintiffs) other members of the purported class. CONMED Linvatec did not generally pay severance during the 2003 restructuring because the former sales representatives were offered sales positions with CONMED Linvatec's new manufacturer's representatives. Other than three of the five named plaintiffs in the class action, nearly all of CONMED Linvatec's former sales representatives accepted such positions.

The Company's motions to dismiss and for summary judgment, which were heard at a hearing held on January 5, 2007, were denied by a Memorandum Decision and Order dated May 22, 2007. The District Court also granted the plaintiffs' motion to certify a class of former CONMED Linvatec sales representatives whose employment with CONMED Linvatec was involuntarily terminated in 2003 and who did not receive severance benefits. Although the Court's ruling on the motions to dismiss, for summary judgment and the motion to certify the class do not represent final rulings on the merits, the Company had filed a motion seeking reconsideration of the motions to dismiss, and sought to appeal to the United State Court of Appeals for the Second Circuit from the class certification ruling. The Second Circuit declined to consider the appeal by Order dated August 28, 2007. In an order dated February 25, 2008, the United States District for the Northern District of New York granted the Company's motion to reconsider the Company's motions to dismiss portions of the complaint and, upon reconsideration, reaffirmed its previous ruling denying the aforementioned motions. The Company believes there is no merit to the claims asserted in the Complaint, and plans to vigorously defend the case. There can be no assurance, however, that the Company will prevail in the litigation.

The Company had been defending a product liability claim asserted against it and several of the Company's subsidiaries in a case captioned Wehner v. Linvatec Corp., et al (the "Wehner Case"). Two of the Company's subsidiaries settled the case and accrued the expenses, including both the settlement and certain defense costs, in the fourth quarter of 2007 in the amount of $1.3 million. As a result of the settlement, all of the claims against all of the Company's entities will be dismissed with prejudice.

As the occurrence giving rise to the Wehner Case occurred in 2002 prior to the Company's 2003 acquisition of Bionx Implants, Inc., the Wehner Case is not covered by the Company's current product liability insurance policy. The former product liability insurance carrier has denied coverage, and the Company and its subsidiaries commenced suit in the United States District Court for the Eastern District of Pennsylvania seeking a declaration that the underlying claim is covered by the policy. The Company and its subsidiaries plan to vigorously pursue the claims for insurance coverage (i.e., for reimbursement of the costs of defending and settling the Wehner Case), although there can be no assurance that the Company and its subsidiaries will prevail.

Note 11 — Other Expense (income)

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

	2005	2006	2007
Acquisition-transition related costs	$ 4,108	$ 2,592	$ —
Termination of product offering	1,519	1,448	148
Environmental settlement costs	698	—	—
Loss on equity investment	794	—	—
Write-off of inventory in settlement of a patent dispute	—	595	—
Facility closure costs	—	578	1,822
Gain on litigation settlement	—	—	(6,072)
Product liability settlement	—	—	1,295
Other expense (income)	$ 7,119	$ 5,213	$ (2,807)

On September 30, 2004, we completed the Endoscopic Technologies acquisition. As part of the acquisition, manufacturing of the acquired products was conducted in various C.R. Bard facilities under a transition agreement. The transition of the manufacturing of these products from C.R. Bard facilities to CONMED facilities was completed during 2006. During the years ended December 31, 2005 and 2006, we incurred $4.1 million and $2.6 million, respectively, of acquisition and transition-integration related charges associated with the Endoscopic Technologies acquisition which have been recorded in other expense (income). These expenses consist of severance, acquisition, transition and integration related charges.

During 2004, we elected to terminate our surgical lights product line. We instituted a customer replacement program whereby all currently installed surgical lights were replaced by CONMED. We recorded charges totaling $5.5 million related to the surgical lights customer replacement program (including $1.5 million, $1.4 million and $0.1 million in the years ended December 31, 2005, 2006 and 2007, respectively) in other expense (income). The surgical lights customer replacement program was completed during the second quarter of 2007.

During the quarter ended June 30, 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, we 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 an estimate of future costs, amounted to approximately $0.7 million and was recorded in other expense (income) for the year ended December 31, 2005. We believe any future costs incurred in excess of amounts already expensed would be covered by insurance.

During the quarter ended December 31, 2005, 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 a $0.8 million loss.

During the quarter ended June 30, 2006, we were notified by Dolphin Medical, Inc. ("Dolphin"), that it would discontinue its Dolphin ONE® product line as a result of an agreement between Dolphin and Masimo Corporation in which Masimo agreed to release Dolphin and its affiliates from certain patent infringement claims. We had sold the Dolphin ONE® and certain other pulse oximetry products manufactured by Dolphin under a distribution agreement. As a result of the product line discontinuation, we recorded a $0.6 million charge to other expense (income) to write-off on-hand inventory of the discontinued product line.

During 2006, we elected to close our facility in Montreal, Canada which manufactured products for our CONMED Linvatec line of integrated operating room systems and equipment. The products which had been manufactured in the Montreal facility are now purchased from third party vendors. The closing of this facility was completed in the first quarter of 2007. We incurred a total of $2.2 million in costs associated with this closure, of which $1.3 million related to the write-off of inventory and was included in cost of goods sold during 2006. The remaining $0.9 million (including $0.3 million in 2007) primarily relates to severance expense and the disposal of fixed assets and has been recorded in other expense (income).

During 2007, we elected to close our CONMED Endoscopic Technologies sales office in France. During 2007, we incurred $1.5 million in costs associated with this closure primarily related to severance expense. We have recorded such costs in other expense (income); no further expenses are expected to be incurred.

In November 2003, we commenced litigation against Johnson & Johnson and several of its subsidiaries, including Ethicon, Inc. for violations of federal and state antitrust laws. In the lawsuit we claimed 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 sought relief including an injunction restraining Johnson & Johnson from continuing its anticompetitive practices as well as receiving the maximum amount of damages allowed by law. During the litigation, Johnson & Johnson represented that the marketing practices which gave rise to the litigation had been altered with respect to CONMED. On March 31, 2007, CONMED and Johnson & Johnson settled the litigation. Under the terms of the final settlement agreement, CONMED received a payment of $11.0 million from Johnson & Johnson in return for which we terminated the lawsuit. After deducting legal and other related costs, we recorded a pre-tax gain of $6.1 million related to the settlement which we have recorded in other expense (income).

Two of the Company's subsidiaries settled a product liability claim asserted against it and several of the Company's subsidiaries in a case captioned Wehner v. Linvatec Corp., et al. Total settlement and defense related costs amounted to $1.3 million which we have recorded in other expense (income) during the quarter ended December 31, 2007.

Note 12 — 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:

	2005	2006	2007
Balance as of January 1,	$ 3,524	$ 3,416	$ 3,617
Provision for warranties	4,035	5,774	3,078
Claims made	(4,143)	(5,573)	(3,389)
Balance as of December 31,	$ 3,416	$ 3,617	$ 3,306

Note 13 — New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" ("SFAS 157"), which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The Company is currently assessing the impact of SFAS 157 on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets and liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for- sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and other eligible financial instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS 159 on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R requires the use of "full fair value" to record all the identifiable assets, liabilities, noncontrolling interests and goodwill acquired in a business combination. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008. The Company is currently assessing the impact of SFAS 141R on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). SFAS 160 requires the noncontrolling interests (minority interests) to be recorded at fair value and reported as a component of equity. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The Company is currently assessing the impact of SFAS 160 on its consolidated financial statements.

Note 14 — Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data for 2006 and 2007 are as follows:

	Three Months Ended			
2006	**March**	**June**	**September**	**December**
Net sales	$ 158,466	$ 163,473	$ 154,981	$ 169,892
Gross profit	77,900	77,774	74,731	82,441
Net income (loss)	4,340	3,414	3,332	(23,593)
EPS: Basic	$ .15	$ .12	$ .12	$ (.84)
Diluted	.15	.12	.12	(.84)
2007	**March**	**June**	**September**	**December**
Net sales	$ 171,014	$ 169,258	$ 164,448	$ 189,568
Gross profit	85,225	85,860	82,358	95,682
Net income (loss)	11,922	9,345	8,355	11,834
EPS: Basic	$ .43	$ .33	$ .29	$ .41
Diluted	.42	.32	.29	.41

Unusual Items Included In Selected Quarterly Financial Data:

2006

First quarter

During the first quarter of 2006, we recorded a charge of $0.1 million related to our termination of our surgical lights product line and $0.5 million of acquisition and transition-integration related costs associated with the Endoscopic Technologies acquisition to other expense – see Note 11.

Second quarter

During the second quarter of 2006, we recorded a charge of $0.6 million related to the write-off of inventory in settlement of a patent dispute and $1.0 million of acquisition and transition-integration related costs associated with the Endoscopic Technologies acquisition to other expense – see Note 11.

During the second quarter of 2006, we recorded a loss on the early extinguishment of debt of $0.7 million – see Note 5.

Third quarter

During the third quarter of 2006, we recorded a charge of $0.4 million related to severance payments due to the closing of a manufacturing plant, $1.0 million in charges related to the termination of our surgical lights product line, and $0.6 million of acquisition and transition-integration related costs associated with the Endoscopic Technologies acquisition to other expense – see Note 11.

Fourth quarter

During the fourth quarter of 2006, we recorded a charge of $1.3 million to cost of sales to write-off inventory related to the closing of a manufacturing plant. In addition, we recorded $0.1 million in severance costs due to the closing of a manufacturing plant, $0.4 million in charges related to the termination of our surgical lights product line, and $0.5 million of acquisition and transition-integration related costs associated with the Endoscopic Technologies acquisition to other expense – see Note 11.

During the fourth quarter of 2006, after completing our annual goodwill impairment testing, we determined that the goodwill of our Endoscopic Technologies operating unit was impaired and consequently we recorded a goodwill impairment charge of $46.7 million – see Note 4.

2007

First quarter

During the first quarter of 2007, we recorded a charge of $0.1 million related to our termination of our surgical lights product line, $0.3 million related to the closure of a manufacturing plant, and $0.3 million related to the closure of a sales office – see Note 11.

During the first quarter of 2007, we recorded a pre-tax gain of $6.1 million related to the settlement of a legal dispute between CONMED and Johnson & Johnson. – see Note 11.

Second quarter

During the second quarter of 2007, we recorded a charge of $1.3 million related to severance payments due to the closing of a sales office – see Note 11.

Third quarter

There were no unusual items in the third quarter of 2007.

Fourth quarter

During the fourth quarter of 2007, we recorded a charge of $1.3 million related to the settlement of a product liability case. Such charges included the settlement and defense related costs – see Note 11.

Note 15 — Subsequent Event

On January 9, 2008, CONMED Corporation entered into an agreement to purchase a distributor's business for approximately $14.4 million. This purchase consists mainly of customer lists.

BOARD OF DIRECTORS

1 **EUGENE R. CORASANTI** is Vice Chairman of the Company and Chairman of the Board of Directors. Mr. Corasanti also served as the Company's Chief Executive Officer from its founding until 2006, as well 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 Executive Officer and a Director of the Company.

2 **JOSEPH J. CORASANTI** has served as President and Chief Executive Officer since January 1, 2007, having served as President and Chief Operating Officer from August 1999 through December 2006. Mr. Corasanti has been 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, Vice Chairman and Chairman of the Board of Directors.

3 **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.

4 **JO ANN GOLDEN** joined the Board of Directors in May 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.

5 **STEPHEN M. MANDIA** has served as a Director of the Company since July 2002. Mr. Mandia has been Chief Executive Officer of East Coast Olive Oil Corp. since 1991. Mr. Mandia also possesses financial ownership and sits on the Board of ECOO Realty 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.

6 **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.

7 **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.

8 **MARK E. TRYNISKI** has served as a Director of the Company since May 2007. He is the President and Chief Executive Officer of Community Bank System, Inc. (NYSE:CBU), where he served as Executive Vice President and Chief Operating Officer from February 2004 through August 2006. From June 2003 through February 2004, Mr. Tryniski was the Chief Financial Officer. Prior to joining Community Bank in June 2003, Mr. Tryniski was a partner with PricewaterhouseCoopers LLP in Syracuse, New York. Mr. Tryniski holds a B.S. degree from the State University of New York at Oswego.

OFFICERS

Executive Officers

Joseph J. Corasanti, Esq.
President and CEO

William W. Abraham
Senior Vice President

David A. Johnson
Vice President – Global Operations and Supply Chain

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

Jane E. Metcalf
Vice President – Corporate Regulatory Affairs

Luke A. Pomilio
Vice President – Corporate Controller

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

Senior Officers

Terence M. Bergé
Treasurer and Assistant Corporate Controller

Heather L. Cohen, Esq.
Secretary and Deputy General Counsel

Alexander R. Jones
Vice President - Corporate Sales

David R. Murray
President – CONMED Electrosurgery

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

Shareholder Information

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

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

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

Stock

The NASDAQ Stock Market® Stock Symbol: CNMD

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PricewaterhouseCoopers LLP
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Ethics Policy
Available at www.conmed.com

Operating Subsidiaries

CONMED Electrosurgery
CONMED Endoscopic Technologies
CONMED Integrated Systems Canada
CONMED Italia Srl.
CONMED Linvatec
CONMED Linvatec Australia
CONMED Linvatec Austria
CONMED Linvatec Belgium
CONMED Linvatec Biomaterials
CONMED Linvatec Canada
CONMED Linvatec Deutschland
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

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