



2010 annual report





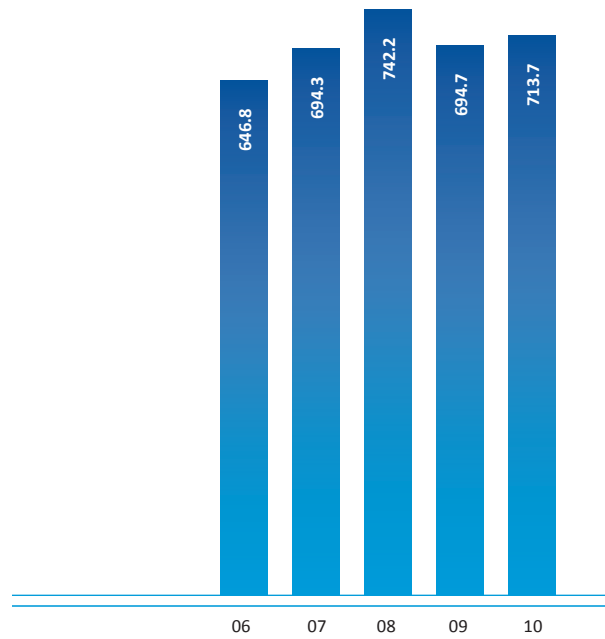


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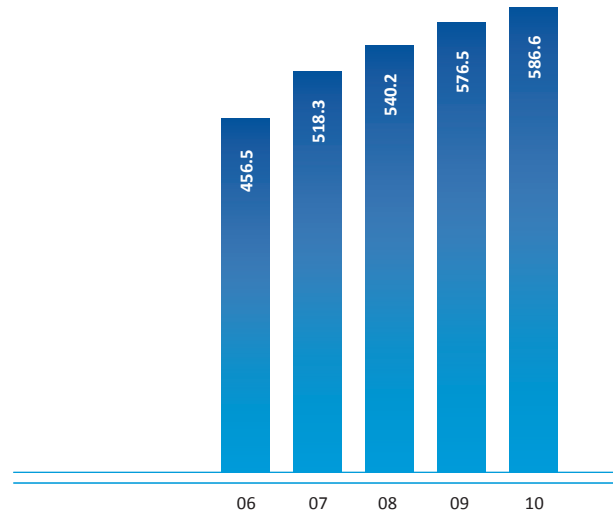
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Financial Highlights

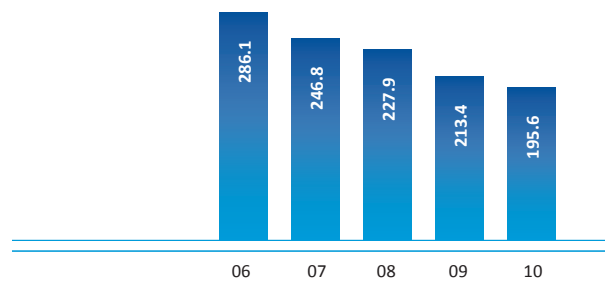
NET SALES (IN \$ MILLIONS)



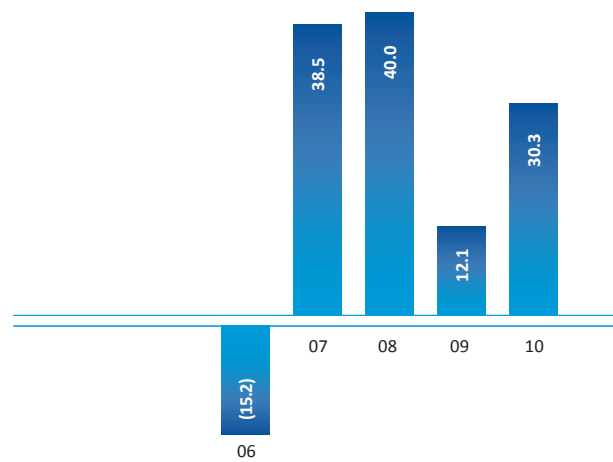
SHAREHOLDERS' EQUITY (IN \$ MILLIONS)



DEBT PLUS RECEIVABLE FINANCING (IN \$ MILLIONS)



NET INCOME (IN \$ MILLIONS)



NOTE: 2006, 2007, and 2008 debt balances have been adjusted to reflect the impact of FASB guidance issued in May 2008 related to the accounting for convertible debt instruments.

Letter to the Shareholders

April 2011

To My Fellow Shareholders:

During 2010, we saw the beginning of a return to normalcy in the markets for our products. Revenues increased modestly compared to sales in the prior year, as we were able to leverage our structure and to increase our profitability. In fact, we were very pleased to report that the increase in our profitability far outpaced the growth in revenues. Further, we are now beginning to experience the benefits that flow from the restructuring efforts we made over the past few years.

As we had done successfully in the past, we continued to focus on efforts to increase revenues, to improve margins and to bring new products into our portfolio.

The financial performance was as follows:

- Sales increased 2.7% to \$713.7 million, compared to 2009 revenues of \$694.7 million. In constant currency, the increase was a modest 1.4%. On a more positive note, sales of disposable and reusable products, which account for roughly 75% of our revenues, experienced an increase of 3.7% (or 2.3% in constant currency), which was somewhat offset by the 0.4% decline (1.7% in constant currency) in capital equipment sales. We believe that the modest rate of revenue growth is a reflection of the lingering effects of the economic challenges many hospitals face, rather than a sign of a decline in our share in the markets we serve.
- Sales outside the United States continued to increase as a percentage of overall sales, growing to 48% of sales for the entire year.
- Gross margins increased on an overall basis to 51.2%, a solid jump up from 48.6% in 2009.
- GAAP diluted earnings per share for 2010 were \$1.05 compared to \$0.42 in 2009, an increase of 150%.
- Non-GAAP diluted earnings per share for 2010 were \$1.30 compared to 2009 Non-GAAP EPS of \$1.00, an increase of 30%. (See the chart for the reconciliation between the GAAP and Non-GAAP Net Income figures on page 5).
- Cash from operations continued to be strong. For the year, cash provided by operating activities was \$67.2 million, when excluding the effect of a change in accounting and the termination of the accounts receivable facility. (See the chart for the reconciliation between GAAP and Non-GAAP Operating Cash Flows on page 5).

Joseph J. Corasanti
President, Chief Executive Officer



On balance, we performed well during 2010 as the economy slowly began to improve, or, as we hope, to recover. On the positive side, patient procedures seemed to increase; but hospitals were cautious with capital purchases. And certain overseas markets were affected by concerns about credit and government spending on healthcare. In the face of these macro-economic trends, which we can neither control nor avoid, we were able to increase sales and profits, and to improve our balance sheet. While several factors contributed to these results, if forced to single out one above all others, it was the steady and unrelenting focus by the senior leadership team. They worked hard throughout the year, and the results reflect the sustained effort they made.

Our Strategy

The strategy we have followed has served the Company well, as our sales, net income and shareholders' equity have increased fairly steadily over the years. We made some adjustments during 2010 as a result of the economic challenges we faced, but otherwise adhered to the same principles that brought us to where we are today. Let me elaborate.

1. Grow the Top Line

We have been focused on growing the top line for several years, and our strategy has four components.

(a) New Products

We continue to provide our customers and our sales representatives with a steady stream of new and innovative products. During 2010 we introduced a number of new products. Among the more exciting were the following:

The Altrus® Tissue Fusion System was cleared by the FDA in 2010, with sales commencing in 2011. This thermal energy-based tissue system, as detailed further in this Annual Report, is entering a large and growing market. We believe our technology is superior in how it cuts with respect to the speed of the cut or seal, the strength of the seal, and the mechanics of our non-stick surfaces. This is an important product for our Electrosurgery division, and we expect that surgeons will be very impressed with its clinical effects.

The Ergo™ Shaver Handpiece represents the latest innovation in a long line of arthroscopy power instruments and offers unique speed, balance and control for surgeons.

The Bullseye® Anatomic Cruciate Reconstruction System provides surgeons with a unique guide system for ligament reconstruction in the knee.

Letter to the Shareholders cont.

CONMED Corporation
Corporate Headquarters:
French Road, Utica, NY



Matryx® Interference Screws We now offer a full range of sizes of Matryx® interference screws used in the repair of knee ligaments. With sizes ranging from as small as 5.0 mm to as large as 11.0 mm, they accommodate the needs of every patient anatomy as well as physician preferences.

NEW 2.8 and 3.3mm PopLok® Knotless Suture Anchors Our Knotless PopLok® Suture Anchors are ideal for the repair of the labrum in the shoulder and hip. With the new sizes, we now offer the smallest double loaded knotless suture anchor in the market.

VCare® Dx We introduced a new uterine manipulator used for diagnostics in the growing women's health care market. Adding to our existing line of uterine manipulators, the VCare® Dx affords excellent control during common procedures such as laparoscopic myomectomies, endometriosis and dye perturbation.

The addition of these new implants and instruments reflects our commitment to providing surgeons with comprehensive, versatile and easy-to-use solutions in all of the markets we serve. These range from arthroscopic repair of soft tissue injuries to general surgery to gynecology and more. Our goal has always been to provide surgeons with the ability to perform repairs or procedures according to whatever their preferred method may be.

(b) Dedicated Service from Our Sales Professionals

We are constantly looking for ways to provide improved services to our customers. Whether this means training medical staff, arranging for service and repair, or just demonstrating the specific features of our products, we are always seeking to leverage the skills of our sales professionals. We continue to provide them with the best training as to our products and the clinical challenges our customers face. We add sales representatives when we can do so responsibly.

(c) Surgeon Education

We continue to drive growth in the demand for our products through surgeon education. Put simply, the more our customers, or potential customers, know about our products and how they address surgical challenges, the more they like them.

(d) Acquisitions

Historically, acquisitions have been one of our strengths, driving growth for most of the 1990's through 2004. During 2010, we did acquire one company, whose only asset was technology that we subsequently developed into The Sequent™ Meniscal Repair System. This system offers proprietary suture-locking implant cleats that will provide

a knotless repair and allow the surgeon to complete an entire meniscal repair with one device without leaving the joint. This device also reduces the risk of failures experienced with currently available devices when entering and leaving the joint. In addition, the Sequent™ Meniscal Repair System should enable surgeons to minimize trauma to the tissue while simplifying the meniscal repair procedure. This device, which was just released at the February 2011 Annual Meeting of the American Academy of Orthopaedic Surgeons offers significant cost savings potential through a reduction in the cost of performing a procedure.

Other than the acquisition of the Sequent technology, we were unable to locate an acquisition target on acceptable terms, but we are always looking. And, given the strength of our balance sheet, we are well positioned to take advantage of the right opportunities if and when they present themselves.

2. Increase Profitability By Monitoring and Reducing Expenses

In addition to our focus on the top line, we also are looking to increase our profit margins. During 2010, we pursued margin expansion through increased efficiencies and cost reductions. We continued to pursue lean manufacturing techniques to reduce costs and to improve quality with our manufacturing operations. We continued to shift several product lines to our low-cost manufacturing facility in Mexico. The costs savings started to flow through to our bottom line during 2010, as evidenced by the improvement in our gross margins, which moved from 48.6% in 2009 to 51.2% in 2010.

We were also able to complete a new round of financing in November 2010. Our timing turned out to be very fortuitous. The result was a low-rate \$250 million credit line which will provide us with the flexibility for acquisitions should the need arise, as well as the ability to redeem the Convertible Notes in the fall of 2011 should we be required to do so.

Outlook

The economy improved during 2010, although not quite to the levels seen prior to the recent financial crisis; hospitals and other customers were cautious in their purchases during 2010.

We are confident that we remain well-positioned for long-term growth. Our product offerings meet the needs of our hospital and surgeon customers. In fact, we have just released some of the most interesting new products we have developed in several years. Our team of managers

and staff is as strong as it has ever been. We fully expect to leverage our existing structure as we work to grow our sales at a rate that we expect will outpace the marginal increases in costs necessary to achieve these goals.

In addition to the financial metrics we watch closely, we also are careful not to lose sight of our larger purpose. We provide our customers with a reliable supply of a broad range of products necessary for life-saving surgeries.

We are optimistic about CONMED's long-term future. We remain committed to improving service to our customers and to increasing profitability for the Company. Our strategy has worked well in the past, and served us well during the past year. We look forward to the future with both determination and confidence.

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

Sincerely,



Joseph J. Corasanti
President, Chief Executive Officer

Impact to Statement of Cash Flows Related to Accounting Change Applied Prospectively¹

(In thousands)
(Unaudited)

Twelve months ended December 31,	2010
Reported cash flows from operations	\$ 38,243
Sale of accounts receivable to (collections for) purchaser accounting change and termination of facility	29,000
Adjusted cash flows from operations	\$ 67,243

¹ This table is provided to reconcile certain financial disclosures referenced in the Letter to the Shareholders. Management has provided the above reconciliation of cash flow from operations before the accounting change as an additional measure that investors can use to compare operating cash flows between reporting periods. Management believes this reconciliation provides a useful presentation of cash flows.

Reconciliation of Reported Net Income to Non-GAAP Net Income Before Unusual Items and Amortization of Debt Discount²

(In thousands except per share amounts)
(Unaudited)

Twelve months ended December 31,	2009	2010
Reported net income	\$ 12,137	\$ 30,346
New plant/facility consolidation costs included in cost of sales	11,859	2,397
Termination of a product offering	—	2,489
CONMED Endoscopic Technologies division consolidation	845	—
Total cost of sales, other	12,704	4,886
CONMED Linvatec division consolidation costs	—	1,497
CONMED Endoscopic Technologies division consolidation	4,080	679
Facility consolidation costs included in other expense	2,726	—
Product recall	5,992	—
Net pension gain	(1,882)	—
Total other expense	10,916	2,176
(Gain) loss on early extinguishment of debt	(1,083)	79
Amortization of debt discount	4,111	4,244
Total unusual expense before income taxes	26,648	11,385
Provision (benefit) for income taxes on unusual expense	(9,633)	(4,139)
Net income before unusual items and amortization of debt discount	\$ 29,152	\$ 37,592

Per share data:

Reported net income		
Basic	\$.42	\$ 1.06
Diluted	.42	1.05
Net income before unusual items and amortization of debt discount		
Basic	\$ 1.00	\$ 1.31
Diluted	1.00	1.30

² This table is provided to reconcile certain financial disclosures referenced in the Letter to the Shareholders. Management has provided this reconciliation of net income before unusual items and amortization of debt discount as an additional measure that investors can use to compare operating performance between reporting periods. Management believes this reconciliation provides a useful presentation of operating performance.

Product Spotlight



Altrus® Thermal Tissue Fusion System

Our new Altrus® System combines the features that surgeons and clinicians want most in current vessel sealing technologies. This thermal-energy-based system allows jaw temperature control, faster and more reliable seals, bladeless cut cycles and minimal thermal spread.

This next-generation energy-based vessel sealing technology provides a temperature-controlled energy source, and fast cycle times to minimize lateral tissue damage and reduce surgeon hand fatigue. It also offers better anatomical access and functionality with a Maryland-style jaw; a unique parallel closure mechanism for consistent pressure across the jaw surface; manual and automatic modes for surgeon flexibility; and clean, bladeless cutting without dulling or jamming. Its ergonomic design also minimizes surgeon hand fatigue, and its multi-functionality reduces the need for multiple instruments and instrument exchanges. The jaws of the handpiece stay clean, reducing the need to remove and clean during surgery, and its thermal technology works in fluid environments.



Ergo™ Shaver Handpiece

The Ergo™ Shaver power arthroscopy handpiece is the most recent innovation in our successful power arthroscopy line, more than 20 years in the making. As the name implies, the handle is ergonomically engineered, a crucial benefit for experienced arthroscopic surgeons. This design provides optimal balance and control to reduce the hand fatigue encountered in many arthroscopic procedures. A combination of speed, power and human-factored engineering means shorter procedure times, leading to potential savings and increased case load for hospitals. With the addition of the Ergo™ Shaver, our extensive line of arthroscopic burs and blades is the perfect system for soft tissue and bone resection.



Bullseye® Anatomic Cruciate Reconstruction System

The Bullseye® is a unique guide system for knee ligament reconstruction. It allows surgeons to perform these complex procedures with precision, and with consistent and reproducible results.

The Bullseye® enables safe and accurate placement of grafts for optimal healing in “anatomic repairs,” those that mimic the undamaged torn knee ligaments. It visually depicts the placement and size of the tunnel to be created and filled with the new ligament. The guides also help ensure that the ligament will be correctly positioned without damaging or interfering with nearby structures such as knee cartilage. For these surgeries, arthroscopic surgeons want reproducibility, and assurance that the graft is correctly positioned in the joint. The Bullseye® System ably delivers both.



Matryx® Interference Screws

The proprietary chemical makeup of our Matryx® screws allows them to be absorbed by the body over time and, in the process, helps foster new bone formation around a repaired ligament. An expanded range of smaller sizes is possible using our new microTCP, a remarkable biocomposite material with unmatched strength and absorption characteristics. They now provide surgeons with interference screw options as small as 5mm in diameter.

These are the smallest biocomposite interference screws currently on the market for primary knee ligament reconstruction. The complete Matryx® product line now contains a full range of diameters, from 5.0mm through 11.0mm.

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 January 31, 2011, there were 864 registered holders of our common stock and approximately 6,157 accounts held in "street name".

The following table sets forth quarterly high and low sales prices for the years ended December 31, 2009 and 2010, as reported by the NASDAQ Stock Market.

Period	2009		2010	
	High	Low	High	Low
First Quarter	\$ 23.99	\$ 11.68	\$ 25.23	\$ 21.51
Second Quarter	16.49	12.31	25.08	18.63
Third Quarter	20.58	15.00	22.41	16.84
Fourth Quarter	23.69	18.35	26.64	21.51

We did not pay cash dividends on our common stock during 2009 or 2010 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 below:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	2,870,723	\$ 23.98	970,156
Equity compensation plans not approved by security holders	—	—	—
Total	<u>2,870,723</u>	<u>\$ 23.98</u>	<u>970,156</u>

Five Year Summary of Selected Financial Data (As Adjusted) (1)

(In thousands, except per share data)

Years Ended December 31,	2006	2007	2008	2009	2010
Statements of Operations Data⁽²⁾:					
Net sales	\$ 646,812	\$ 694,288	\$ 742,183	\$ 694,739	\$ 713,723
Income (loss) from operations	(4,603)	80,991	75,259	28,269	57,093
Net income (loss)	(15,233)	38,544	39,989	12,137	30,346
Earnings (Loss) Per Share:					
Basic	\$ (.54)	\$ 1.36	\$ 1.39	\$ 0.42	\$ 1.06
Diluted	(.54)	1.33	1.37	0.42	1.05
Weighted Average Number of Common Shares In Calculating:					
Basic earnings (loss) per share	27,966	28,416	28,796	29,074	28,715
Diluted earnings (loss) per share	27,966	28,965	29,227	29,142	28,911
Other Financial Data:					
Depreciation and amortization	\$ 34,175	\$ 36,152	\$ 37,159	\$ 41,283	\$ 41,807
Capital expenditures	21,895	20,910	35,879	21,444	14,732
Balance Sheet Data (at period end):					
Cash and cash equivalents	\$ 3,831	\$ 11,695	\$ 11,811	\$ 10,098	\$ 12,417
Total assets	861,571	893,951	931,661	958,413	985,773
Long-term obligations	329,818	298,383	316,532	302,791	219,344
Total shareholders' equity	456,548	518,284	540,215	576,515	586,563

(1) In May 2008, the FASB issued guidance which specifies that issuers of convertible debt instruments that permit or require the issuer to pay cash upon conversion should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The Company is required to apply the guidance retrospectively to all past periods presented. We adopted this guidance on January 1, 2009 related to our 2.50% convertible senior subordinated notes due 2024 ("the Notes"). See additional discussion in Note 15 of the Consolidated Financial Statements.

(2) 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 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:

	2008	2009	2010
Arthroscopy	38%	39%	40%
Powered Surgical Instruments	21	21	20
Electrosurgery	14	14	14
Patient Care	11	10	10
Endosurgery	9	9	9
Endoscopic Technologies	7	7	7
Consolidated Net Sales	<u>100%</u>	<u>100%</u>	<u>100%</u>

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 44%, 45% and 48% in 2008, 2009 and 2010, 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 noninvasive) procedures are important trends which are driving the long-term 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 as continued innovation and commercialization of new proprietary products and processes are essential elements of our long-term growth strategy. Our reputation as an innovator is exemplified by recent new product introductions such as the 2.8 and 3.3mm PopLock® Knotless Suture Anchors, for repair of unstable shoulders and for use in the emerging Endoscopic hip market; the Concept® Suture Passer, for use in rotator cuff repair; the Sequent™ Meniscal Repair System, which offers suture-locking implant cleats that will provide a knotless repair and allow the surgeon to complete an entire meniscal repair with one

device without leaving the joint; CrossFT BC™ biocomposite suture anchor for rotator cuff repair; PRO6140 & PRO6240 pin drivers, to allow the use of one device during procedures such as total joint arthroplasty, trauma, sports medicine surgeries as well as small bone orthopedics; and the Altrus® Thermal Tissue Fusion System, which utilizes thermal energy to seal, cut, grasp, and dissect vessels up to 7mm in size utilizing a closed feedback loop between the energy source and the single-use handpiece to precisely control the desired effect on tissue.

Business Challenges

Given significant volatility in the financial markets and foreign currency exchange rates and depressed economic conditions in both domestic and international markets, 2009 presented significant business challenges. While we are cautiously optimistic that the overall global economic environment is improving and have seen a return to revenue growth in 2010, there can be no assurance that the improvement in the economic environment will be sustained. We will continue to monitor and manage the impact of the overall economic environment on the Company.

During 2009 and 2010, we successfully completed our operational restructuring plans whereby we consolidated manufacturing and distribution centers as well as restructured certain of our administrative functions. We will continue to restructure both operations and administrative functions as necessary throughout the organization. However, we cannot be certain such activities will be completed in the estimated time period or that planned cost savings will be achieved.

Our facilities are subject to periodic inspection by the United States Food and Drug Administration ("FDA") and foreign regulatory agencies or notified bodies for, among other things, conformance to Quality System Regulation and Current Good Manufacturing Practice ("CGMP") requirements and foreign or international standards. Our products are also subject to product recall and we have made product recalls in the past, including \$6.0 million in 2009 related to certain of our powered instrument handpieces. 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, that we will not make product recalls in the future or that we will not experience temporary or extended periods during which we may not be able to sell products in foreign countries.

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 \$13.4 million, \$11.3 million and \$7.9 million for 2008, 2009 and 2010, respectively.
- We sell to a diversified base of customers around the world and, therefore, believe there is no material concentration of credit risk.
- We assess the risk of loss on accounts receivable and adjust the allowance for doubtful accounts based on this risk assessment. Historically, losses on accounts receivable have not been material. Management believes that the allowance for doubtful accounts of \$1.1 million at December 31, 2010 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.

Goodwill and Intangible Assets

We have a history of growth through acquisitions. Assets and liabilities of acquired businesses are recorded 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 \$295.1 million and other intangible assets of \$190.1 million as of December 31, 2010.

In accordance with Financial Accounting Standards Board ("FASB") guidance, goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to at least annual impairment testing. It is our policy to perform our annual impairment testing in the fourth quarter. The identification and measurement of goodwill impairment involves the estimation of the fair value of our reporting units. 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 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. We completed our goodwill impairment testing as of October 1, 2010 and determined that no impairment existed at that date. For our CONMED Electrosurgery, CONMED Endosurgery and CONMED Linvatec operating units, our impairment testing utilized CONMED Corporation's EBIT multiple adjusted for a market-based control premium with the resultant fair values exceeding carrying values by 76% to 121%. Our CONMED Patient Care operating unit has the least excess of fair value over carrying value of our reporting units; we therefore utilized both a market-based approach and an income approach when performing impairment testing with the resultant fair value exceeding carrying value by 15%. The income approach contained certain key assumptions including that revenue would resume historical growth patterns in 2011 while including certain cost savings associated with the operational restructuring plan completed during 2010. We continue to monitor events and circumstances for triggering events which would more likely than not reduce the fair value of any of our reporting units and require us to perform impairment testing.

Intangible assets with a finite life are amortized over the estimated useful life of the asset and are evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The carrying amount of an intangible asset subject to amortization is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset. An impairment loss is recognized by reducing the carrying amount of the intangible asset to its current fair value.

Customer relationship assets arose principally as a result of the 1997 acquisition of Linvatec Corporation. These assets represent the acquisition date fair value of existing customer relationships based on the after-tax income expected to be derived during their estimated remaining useful life. The useful lives of these customer relationships were not and are not limited by contract or any economic, regulatory or other known factors. The estimated useful life of the Linvatec customer relationship assets was determined as of the date of acquisition as a result of a study of the observed pattern of historical revenue attrition during the 5 years immediately preceding the acquisition of Linvatec Corporation. This observed attrition pattern was then applied to the existing customer relationships to derive the future expected retirement of the customer relationships. This analysis indicated an annual attrition rate of 2.6%. Assuming an exponential attrition pattern, this equated to an average remaining useful life of approximately 38 years for the Linvatec customer relationship assets. Customer relationship intangible assets arising as a result of other business acquisitions are being amortized over a weighted average life of 17 years. The weighted average life for customer relationship assets in aggregate is 34 years.

We evaluate the remaining useful life of our customer relationship intangible assets each reporting period in order to determine whether events and circumstances warrant a revision to the remaining period of amortization. In order to further evaluate the remaining useful life of our customer relationship intangible assets, we perform an analysis and assessment of actual customer attrition and activity as events and circumstances warrant. This assessment includes a comparison of customer activity since the acquisition date and review of customer attrition rates. In the event that our analysis of actual customer attrition rates indicates a level of attrition that is in excess of that which was originally contemplated, we would change the estimated useful life of the related customer relationship asset with the remaining carrying amount amortized prospectively over the revised remaining useful life.

We test our customer relationship assets for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Factors specific to our customer relationship assets which might lead to an impairment charge include a significant increase in the annual customer attrition rate or otherwise significant loss of customers, significant decreases in sales or current-period operating or cash flow losses or a projection or forecast of losses. We do not believe that there have been events or changes in circumstances which would indicate the carrying amount of our customer relationship assets might not be recoverable.

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.

On March 26, 2009, the Board of Directors approved a plan to freeze benefit accruals under our pension plan effective May 14, 2009. As a result, we recorded a curtailment gain of \$4.4 million and a reduction in accrued pension of \$11.4 million which is included in other long term liabilities. See Note 9 to the Consolidated Financial Statements.

The weighted-average discount rate used to measure pension liabilities and costs is set by reference to the Citigroup Pension Liability Index. However, this index gives only an indication of the appropriate discount rate because the cash flows of the bonds comprising the index do not match the projected benefit payment stream of the plan precisely. For this reason, we also consider the individual characteristics of the plan, such as projected cash flow patterns and payment durations, when setting the discount rate. This discount rate, which is used in determining pension expense, was 5.97% for the first quarter of 2009. The discount rate used for purposes of remeasuring plan liabilities as of the date the plan freeze was approved and for purposes of measuring pension expense for the remainder of 2009 was 7.30%. The rates used in determining 2010 and 2011 pension expense are 5.86% and 5.41%, respectively.

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.

Pension expense in 2011 is expected to be \$1.9 million compared to expense of \$0.9 million in 2010. In addition, we will be required to contribute approximately \$2.1 million to the pension plan for the 2011 plan year.

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

Stock-Based Compensation

All share-based payments to employees, including grants of employee stock options, restricted stock units, performance share units and stock appreciation rights are recognized in the financial statements based at their fair values. Compensation expense is generally recognized using a straight-line method over the vesting period. Compensation expense for performance share units is recognized using the graded vesting method.

Income Taxes

The recorded future tax benefit arising from deductible temporary differences and tax carryforwards is approximately \$38.3 million at December 31, 2010. Management believes that 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. The Internal Revenue Service ("IRS") has completed examinations of our United States federal income tax returns through 2009. Tax years subsequent to 2009 are subject to future examination.

Consolidated Results of Operations

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

Years Ended December 31,	2008	2009	2010
Net sales	100.0%	100.0%	100.0%
Cost of sales	48.5	51.4	48.8
Gross margin	51.5	48.6	51.2
Selling and administrative expense	36.7	38.3	38.7
Research and development expense	4.5	4.6	4.2
Other expense	0.2	1.6	0.3
Income from operations	10.1	4.1	8.0
Gain (loss) on early extinguishment of debt	0.3	0.1	(0.0)
Amortization of debt discount	0.6	0.6	0.6
Interest expense	1.4	1.0	1.0
Income before income taxes	8.4	2.6	6.4
Provision for income taxes	3.0	0.9	2.1
Net income	<u>5.4%</u>	<u>1.7%</u>	<u>4.3%</u>

2010 Compared to 2009

Sales for 2010 were \$713.7 million, an increase of \$19.0 million (2.7%) compared to sales of \$694.7 million in 2009 with the increases occurring in Arthroscopy, Electrosurgery and Endosurgery. Foreign currency exchange rates (when compared to the foreign

currency exchange rates in the same period a year ago) accounted for approximately \$9.6 million of the increase. In local currency, sales increased 1.4%. Sales of capital equipment decreased \$0.7 million (-0.4%) from \$165.9 million in 2009 to \$165.2 million in 2010; sales of single-use and reusable products increased \$19.7 million (3.7%) from \$528.8 million in 2009 to \$548.5 million in 2010. On a local currency basis, sales of capital equipment decreased 1.7% while single-use and reusable products increased 2.3%.

Cost of sales decreased to \$348.3 million in 2010 as compared to \$357.4 million in 2009. Gross profit margins increased 2.6 percentage points to 51.2% in 2010 as compared to 48.6% in the same period a year ago. The increase in gross profit margins of 2.6 percentage points is primarily a result of the effects of favorable foreign currency exchange rates on sales (0.7 percentage points) and net cost savings as a result of our restructuring efforts (1.9 percentage points) as more fully described in Note 16 to the Consolidated Financial Statements.

Selling and administrative expense increased to \$276.5 million from \$266.3 million in 2009. Foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$2.8 million of the increase. Selling and administrative expense as a percentage of net sales increased to 38.7% in 2010 from 38.3% in 2009. This increase of 0.4 percentage points is primarily attributable to higher compensation and benefit costs during the period.

Research and development expense was \$29.7 million in 2010 compared to \$31.8 million in 2009. As a percentage of net sales, research and development expense decreased to 4.2% in 2010 compared to 4.6% in 2009. The decrease of 0.4 percentage points is mainly driven by decreased spending on our CONMED Patient Care products (0.2 percentage points), CONMED Linvatec products (0.1 percentage points) and other products (0.1 percentage points).

As discussed in Note 11 to the Consolidated Financial Statements, other expense in 2010 consisted of the following: a \$1.5 million charge related to the consolidation of administrative functions in our CONMED Linvatec division and a \$0.7 million charge related to a lease impairment on our Chelmsford, Massachusetts facility. Other expense in 2009 consisted of a \$2.7 million charge related to the restructuring of certain of the Company's operations; a \$4.1 million charge related to the consolidation of the administrative functions of the CONMED Endoscopic Technologies division; a \$6.0 million charge related to a voluntary recall of certain of our powered instrument products; and a \$1.9 million net pension gain resulting from the freezing of future benefit accruals effective May 14, 2009.

During the second quarter of 2010, we repurchased and retired \$3.0 million of our 2.50% convertible senior subordinated notes (the "Notes") for \$2.9 million and recorded a loss on the early extinguishment of debt of \$0.1 million. During the first quarter of 2009, we repurchased and retired \$9.9 million of the Notes for \$7.8 million and recorded a gain on the early extinguishment of debt of \$1.1 million net of the write-offs of \$0.1 million in unamortized deferred financing costs and \$1.0 million in unamortized Notes discount. 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.

Amortization of debt discount in 2010 was \$4.2 million compared to \$4.1 million in 2009. This amortization is associated with the

implementation of FASB guidance as of January 1, 2009 as further described in Note 15 to the Consolidated Financial Statements.

Interest expense was \$7.1 million in both 2009 and 2010. Interest expense remained the same on lower weighted average borrowings due to higher weighted average interest rates on the borrowings. The weighted average interest rates on our borrowings (inclusive of the finance charge on our accounts receivable sale facility) increased to 3.18% in 2010 as compared to 2.90% in 2009.

A provision for income taxes was recorded at an effective rate of 33.5% in 2010 and 33.1% in 2009 as compared to the Federal statutory rate of 35.0%. The effective tax rate for 2010 is higher than that recorded in the same period a year ago as a result of the settlement of our 2007 IRS examination in the first quarter of 2009, and the resulting adjustment to our reserves and reduction of income tax expense. 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.

2009 Compared to 2008

Sales for 2009 were \$694.7 million, a decrease of \$47.5 million (-6.4%) compared to sales of \$742.2 million in 2008 with the decreases occurring in all product lines except Endosurgery. Foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$20.4 million of the decrease. In local currency, sales decreased 3.7%. Sales of capital equipment decreased \$31.9 million (-16.1%) from \$197.8 million in 2008 to \$165.9 million in 2009; sales of single-use and reusable products decreased \$15.6 million (-2.9%) from \$544.4 million in 2008 to \$528.8 million in 2009. On a local currency basis, sales of capital equipment decreased 13.3% while single-use and reusable products decreased 0.1%. We believe the overall decline in sales is driven by capital purchasing constraints in hospitals due to the depressed economic conditions.

Cost of sales decreased to \$357.4 million in 2009 as compared to \$359.8 million in 2008 on overall decreases in sales volumes as described above. Gross profit margins decreased 2.9 percentage points to 48.6% in 2009 as compared to 51.5% in the same period a year ago. The decrease in gross profit margins of 2.9 percentage points is primarily a result of the effects of unfavorable foreign currency exchange rates on sales (1.5 percentage points) and restructuring of the Company's operations as more fully described in Note 16 (1.8 percentage points) offset by improved product mix (0.4 percentage points).

Selling and administrative expense decreased from \$272.4 million in 2008 to \$266.3 million in 2009. Foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$6.8 million of the decrease. Selling and administrative expense as a percentage of net sales increased to 38.3% in 2009 from 36.7% in 2008. This increase of 1.6 percentage points is primarily attributable to higher benefit related costs (0.4 percentage points) and higher sales force and other administrative expenses (1.2 percentage points) as a percent of sales.

Research and development expense was \$31.8 million in 2009 compared to \$33.1 million in 2008. As a percentage of net sales, research and development expense increased to 4.6% in 2009 compared to 4.5% in 2008. The increase in research and development expense of 0.1 percentage point is due to increased spending on our CONMED Linvatec orthopedic products (0.5 percentage points) offset by decreases in other research and development spending (0.4 percentage points).

As discussed in Note 11 to the Consolidated Financial Statements, other expense in 2009 consisted of the following: a \$2.7 million charge related to the restructuring of certain of the Company's operations; a \$4.1 million charge related to the consolidation of the administrative functions of the CONMED Endoscopic Technologies division; a \$6.0 million charge related to a voluntary recall of certain of our powered instrument products; and a \$1.9 million net pension gain resulting from the freezing of future benefit accruals effective May 14, 2009. Other expense in 2008 consisted of a \$1.6 million charge related to the restructuring and relocation of certain of the Company's facilities.

During the first quarter of 2009, we repurchased and retired \$9.9 million of the Notes for \$7.8 million and recorded a gain on the early extinguishment of debt of \$1.1 million net of the write-offs of \$0.1 million in unamortized deferred financing costs and \$1.0 million in unamortized Notes discount. During the fourth quarter of 2008, we repurchased and retired \$25.0 million of the Notes for \$20.2 million and recorded a gain on the early extinguishment of debt of \$1.9 million net of the write-off of \$0.4 million in unamortized deferred financing costs and \$2.4 million in unamortized Notes discount. 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.

Amortization of debt discount in 2009 was \$4.1 million compared to \$4.8 million in 2008. This amortization is associated with the implementation of FASB guidance as of January 1, 2009 as further described in Note 15 to the Consolidated Financial Statements.

Interest expense in 2009 was \$7.1 million compared to \$10.4 million in 2008. The decrease in interest expense is due to lower weighted average interest rates combined with lower weighted average borrowings outstanding in 2009 as compared to 2008. The weighted average interest rates on our borrowings (inclusive of the finance charge on our accounts receivable sale facility) decreased to 2.90% in 2009 as compared to 3.78% in 2008.

A provision for income taxes was recorded at an effective rate of 33.1% in 2009 and 35.5% in 2008 as compared to the Federal statutory rate of 35.0%. The effective tax rate for 2009 is lower than that recorded in the same period a year ago as a result of the settlement of our 2007 IRS examination in the first quarter of 2009, and the resulting adjustment to our reserves and reduction of income tax expense. 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, 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 2008, 2009 and 2010:

CONMED Endosurgery, CONMED Electrosurgery and CONMED Linvatec

	2008	2009	2010
Net sales	\$ 612,521	\$ 574,820	\$ 596,923
Income from operations	98,101	62,715	77,271
Operating margin	16.0%	10.9%	12.9%

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 \$18.6 million (6.9%) in 2010 to \$288.4 million from \$269.8 million in 2009. Favorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$4.6 million of the increase. Sales of capital equipment increased \$1.9 million (2.6%) to \$75.2 million in 2010 from \$73.3 million in 2009; sales of single-use products increased \$16.7 million (8.5%) to \$213.2 million in 2010 from \$196.5 million in 2009. On a local currency basis, sales of capital equipment increased 1.4% while single-use products increased 6.6%. We believe the overall increase in sales is driven by our new shoulder restoration system and increases in our resection and video imaging products for arthroscopy and general surgery. Arthroscopy sales decreased \$22.1 million (-7.6%) in 2009 to \$269.8 million from \$291.9 million in 2008 as we believe hospitals experienced capital purchasing restraints due to depressed economic conditions. Unfavorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$9.2 million of the decrease. Sales of capital equipment decreased \$19.6 million (-21.1%) to \$73.3 million in 2009 from \$92.9 million in 2008; sales of single-use products decreased \$2.5 million (-1.3%) to \$196.5 million in 2009 from \$199.0 million in 2008. On a local currency basis, sales of capital equipment decreased 18.6% while single-use products increased 2.2%.
- Powered surgical instrument sales decreased \$1.7 million (-1.2%) in 2010 to \$142.3 million from \$144.0 million in 2009 mainly due to decreases in sales of our small bone handpieces. Favorable foreign currency exchange rates (when compared to the same period a year ago) increased sales approximately \$2.8 million. Sales of capital equipment decreased \$3.3 million (-4.9%) to \$64.4 million in 2010 from \$67.7 million in 2009; sales of single-use products increased \$1.6 million (2.1%) in 2010 to \$77.9 million compared to \$76.3 million in 2009. On a local currency basis, sales of capital equipment decreased 6.4% while single-use products decreased 0.3%. Powered surgical instrument sales decreased \$11.7 million (-7.5%) in 2009 to \$144.0 million from \$155.7 million in 2008 as we believe hospitals experienced capital purchasing restraints due to depressed economic conditions. Unfavorable foreign currency exchange rates (when compared to the same period a year ago) accounted for approximately \$6.1 million of the decrease. Sales of capital equipment decreased \$8.7 million (-11.4%) to \$67.7 million in 2009 from \$76.4 million in 2008; sales of single-use products decreased \$3.0 million (-3.8%) in 2009 to \$76.3 million from \$79.3 million in 2008. On a local currency basis, sales of capital equipment decreased 8.1% while single-use products increased 0.8%.
- Electrosurgery sales increased \$2.2 million (2.3%) in 2010 to \$97.2 million from \$95.0 million in 2009 mainly due to higher pencil sales. Favorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$0.9 million of the

increase. Sales of capital equipment increased \$0.7 million (2.8%) to \$25.6 million in 2010 from \$24.9 million in 2009; sales of single-use products increased \$1.5 million (2.1%) to \$71.6 million in 2010 from \$70.1 million in 2009. On a local currency basis, sales of capital equipment increased 1.6% while single-use products increased 1.3%. Electrosurgery sales decreased \$5.5 million (-5.5%) in 2009 to \$95.0 million from \$100.5 million in 2008 as we believe hospitals experienced capital purchasing restraints due to depressed economic conditions. Unfavorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$1.5 million of the decrease. Sales of capital equipment decreased \$3.6 million (-12.6%) to \$24.9 million in 2009 from \$28.5 million in 2008; sales of single-use products decreased \$1.9 million (-2.6%) to \$70.1 million in 2009 from \$72.0 million in 2008. On a local currency basis, sales of capital equipment decreased 10.2% while single-use products decreased 1.5%.

- Endosurgery sales increased \$3.0 million (4.5%) in 2010 to \$69.0 million from \$66.0 million in 2009 mainly due to increased sales of our suction irrigation and VCARE products. Favorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) increased sales approximately \$0.4 million. On local currency basis, sales increased 3.9%. Endosurgery sales increased \$1.6 million (2.5%) in 2009 to \$66.0 million from \$64.4 million in 2008. Unfavorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) decreased sales approximately \$1.6 million. On local currency basis, sales increased 5.0%.
- Operating margins as a percentage of net sales increased 2.0 percentage points to 12.9% in 2010 compared to 10.9% in 2009. The increase in operating margins is primarily due to higher gross margins (0.7 percentage points) mainly driven by favorable foreign currency exchange rates, net of costs associated with the termination of a product offering in our CONMED Linvatec division (0.4 percentage points) as more fully described in Note 16 to our Consolidated Financial Statements, lower research and development spending (0.2 percentage points) and the prior year including costs associated with the voluntary recall of certain powered instrument products (0.9 percentage points).
- Operating margins as a percentage of net sales decreased 5.1 percentage points to 10.9% in 2009 compared to 16.0% in 2008. The decrease in operating margins is due to lower gross margins (1.7 percentage points) due to unfavorable foreign currency exchange rates, higher research and development spending (0.6 percentage points) due to increased emphasis on our CONMED Linvatec orthopedic products, and costs associated with the voluntary recall of certain powered instrument products (1.0 percentage points); see Note 11 to the Consolidated Financial Statements for further discussion. In addition, sales force and other relatively fixed administrative expenses increased 1.8 points as a percentage of lower overall sales.

CONMED Patient Care

	2008	2009	2010
Net sales	\$ 78,384	\$ 70,978	\$ 68,283
Income (loss) from operations	2,259	(1,263)	(38)
Operating margin	2.9%	(1.8%)	(0.1%)

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 decreased \$2.7 million (-3.8%) in 2010 to \$68.3 million compared to \$71.0 million in 2009 principally due to decreased sales of ECG electrodes and IV devices. Favorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) increased sales approximately \$0.3 million. On a local currency basis, sales decreased 4.2%. Patient Care sales decreased \$7.4 million (-9.4%) in 2009 to \$71.0 million compared to \$78.4 million in 2008 principally due to decreased sales of suction instruments and ECG electrodes to distributors. Unfavorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$0.5 million of the decrease. On a local currency basis, sales decreased 8.8%.
- Operating margins as a percentage of net sales increased 1.7% percentage points to -0.1% in 2010 compared to -1.8% in 2009. The increase in operating margins is primarily driven by increases in gross margins (0.8 percentage points) mainly due to cost improvements resulting from our operational restructuring and lower research and development spending (1.0 percentage points).
- Operating margins as a percentage of net sales decreased 4.7% percentage points to -1.8% in 2009 compared to 2.9% in 2008. The decreases in operating margins are primarily due to decreases in gross margins of 1.7 percentage points on lower sales volumes in 2009 compared to 2008. Higher selling and relatively fixed administrative costs (4.3 percentage points) accounted for the remaining increase and were offset by decreased research and development spending (1.3 percentage points) on our Endotracheal Cardiac Output Monitor ("ECOM") project.

CONMED Endoscopic Technologies

	2008	2009	2010
Net sales	\$ 51,278	\$ 48,941	\$ 48,517
Income (loss) from operations	(7,411)	(7,904)	(1,315)
Operating margin	(14.5%)	(16.2%)	(2.7%)

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 \$0.4 million (-0.8%) in 2010 to \$48.5 million from \$48.9 million in 2009 principally due to lower stricture management and forcep sales. Favorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) increased sales approximately \$0.6 million. On a local currency basis, sales decreased 2.0%. Endoscopic Technologies net sales declined \$2.4 million (-4.7%) in 2009 to \$48.9 million from \$51.3 million in 2008 principally due to decreased sales of disposable biopsy forceps. Unfavorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$1.4 million of the decrease. On a local currency basis, sales decreased 1.9%.
- Operating margins as a percentage of net sales increased 13.5 percentage points to (-2.7%) in 2010 from (-16.2%) in 2009. The increase in operating margins of 13.5 percentage points in 2010 is primarily due to the prior year including costs associated with the consolidation of the administrative offices (8.3 percentage points), higher gross margins (1.3 percentage points) and overall lower administrative expenses (5.3 percentage points) as a result

of the consolidation of the CONMED Endoscopic Technologies division into the Corporate facility offset by a lease impairment charge in 2010 related to the Chelmsford, Massachusetts facility (1.4 percentage points); see Note 11 to the Consolidated Financial Statements.

- Operating margins as a percentage of net sales decreased 1.7 percentage points to (-16.2%) in 2009 from (-14.5%) in 2008. The decrease in operating margins of 1.7 percentage points in 2009 is primarily due to charges associated with the consolidation of divisional administrative offices from Chelmsford, Massachusetts to our Corporate Headquarters in Utica, New York (8.3 percentage points); see Note 11 to the Consolidated Financial Statements. This increase in cost was partially offset by higher gross margins (2.3 percentage points), lower research and development spending of (2.5 percentage points) and overall lower spending in selling and administrative expenses (1.8 percentage points) as a result of our continued efforts to improve the profitability of the business.

Liquidity and Capital Resources

Our liquidity needs arise primarily from capital investments, working capital requirements and payments on indebtedness under the senior credit agreement. During 2011, additional liquidity needs may arise if the Notes are put to us as further described below. We have historically met these liquidity requirements with funds generated from operations, including borrowings under our revolving credit facility. In addition, we use term borrowings, including borrowings under our senior credit agreement and borrowings under separate loan facilities, in the case of real property purchases, to finance our acquisitions. We also have the ability to raise funds through the sale of stock or we may issue debt through a private placement or public offering.

Operating Cash Flows

Our net working capital position was \$170.3 million at December 31, 2010. Net cash provided by operating activities was \$61.1 million in 2008, \$25.0 million in 2009, and \$38.2 million in 2010 generated on net income of \$40.0 million in 2008, \$12.1 million in 2009 and \$30.3 million in 2010. The increase in cash provided by operating activities in 2010 is mainly driven by the increase in net income of \$18.2 million.

Effective January 1, 2010, a new accounting pronouncement requires accounts receivable sold under our accounts receivable sale agreement be recorded as additional borrowings rather than as a reduction in accounts receivable. This change in accounting has been reflected on a prospective basis. Accordingly, cash collections on behalf of the purchaser of the \$29.0 million undivided percentage ownership interest in accounts receivable sold prior to January 1, 2010 have been presented as a reduction in cash from operations. We terminated the accounts receivable sales agreement effective November 4, 2010 and repaid the outstanding balance of \$24.0 million. See Note 14 to the Consolidated Financial Statements for further discussion of the change in accounting for the accounts receivable sales agreement.

Investing Cash Flows

Capital expenditures were \$35.9 million, \$21.4 million and \$14.7 million in 2008, 2009, and 2010, respectively. Capital expenditures are expected to approximate \$20.0 million in 2011.

The decrease in capital expenditures in 2010 compared to 2009 is due to the completion during the second quarter of 2009 of the implementation of an enterprise business software application

as well as certain other infrastructure improvements related to our restructuring efforts as more fully described in Note 16 to the Consolidated Financial Statements and in "Restructuring" below.

During 2010, we acquired a business with a cash purchase price of \$5.0 million (see Note 4 to the Consolidated Financial Statements for further discussion). During 2008, we purchased our Italian distributor (the "Italy acquisition") for \$21.8 million.

Financing Cash Flows

Net cash used in financing activities during 2010 consisted of the following: \$2.5 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), \$12.0 million in borrowings on our revolver under our senior credit agreement, \$23.0 million in repurchases of treasury stock, \$1.4 million in repayments of term borrowings under our senior credit agreement, \$0.8 million in repayments on our mortgage notes, a \$2.9 million repurchase of our 2.50% convertible senior subordinated notes and \$2.5 million in payments related to the issuance of debt. See Note 5 to the Consolidated Financial Statements for further discussion of the repurchase of the Notes.

On November 30, 2010, we entered into the First Amendment to our Amended and Restated Credit Agreement (the "senior credit agreement") providing for an expanded \$250.0 million revolving credit facility expiring on November 30, 2015. The senior credit agreement continues to include a \$135.0 million term loan of which \$54.9 million was outstanding as of December 31, 2010. There were \$22.0 million in borrowings outstanding on the revolving credit facility as of December 31, 2010. Our available borrowings on the revolving credit facility at December 31, 2010 were \$218.5 million with approximately \$9.5 million of the facility set aside for outstanding letters of credit.

Borrowings outstanding on the revolving credit facility are due and payable on November 30, 2015. 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% (1.77% at December 31, 2010) or an alternative base rate; interest rates on the revolving credit facility portion of the senior credit agreement are at LIBOR plus 1.75% (2.02% at December 31, 2010) 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 0.25% for borrowings under the revolving credit facility.

The senior credit agreement is collateralized by substantially all of our personal property and assets. 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, 2010. We are also required, under certain circumstances, to make mandatory prepayments from net cash proceeds from any issuance of equity and asset sales.

We have a mortgage note outstanding in connection with the property and facilities utilized by our CONMED Linvatec subsidiary bearing interest at 8.25% per annum with semiannual payments of principal and interest through June 2019. The principal balance outstanding on the mortgage note aggregated \$10.5 million at December 31, 2010. The mortgage note is collateralized by the CONMED Linvatec property and facilities.

We have outstanding \$112.1 million in 2.50% convertible senior subordinated notes due 2024 ("the Notes"). During 2010, we repurchased and retired \$3.0 million of the Notes for \$2.9 million and recorded a loss on the early extinguishment of debt of \$0.1 million. During 2009, we repurchased and retired \$9.9 million of the Notes for \$7.8 million and recorded a gain on the early extinguishment of debt of \$1.1 million net of the write-offs of \$0.1 million in unamortized deferred financing costs and \$1.0 million in unamortized Notes discount. 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, 2010, 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 have the right to put to us some or all of the Notes for repurchase on November 15, 2011, 2014 and 2019 and, provided the terms of the indenture are satisfied, we will be required to repurchase the Notes. If the Notes are put to us on November 15, 2011, we expect to utilize our \$250.0 million revolving credit facility for payment of the Notes.

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.

We had an accounts receivable sales agreement through November 4, 2010 at which time we repaid in full the \$24.0 million outstanding and terminated the agreement. Under this agreement, we and certain of our subsidiaries sold on an ongoing basis certain accounts receivable to CONMED Receivables Corporation ("CRC"), a wholly-owned, bankruptcy-remote, special-purpose subsidiary of CONMED Corporation. CRC in turn sold up to an aggregate \$40.0 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 were calculated as defined in the accounts receivable sales agreement, as amended. Effectively, collections on the pool of receivables flowed first to the purchaser and then to CRC, but to the extent that the purchaser's share of collections were less than the amount of the purchaser's asset interest, there was no recourse to CONMED or CRC for such shortfall. For receivables which had been sold, CONMED Corporation and its subsidiaries retained collection and administrative responsibilities as agent for the purchaser. As of December 31, 2009, the undivided percentage ownership interest in receivables sold by CRC to the purchaser

aggregated \$29.0 million which was accounted for as a sale and reflected in the balance sheet as a reduction in accounts receivable. Effective January 1, 2010, new accounting guidance requires such receivables sales to be accounted for as additional borrowings and recorded in the current portion of long term debt rather than as previously treated as a sale and reflected in the balance sheet as a reduction in accounts receivable. This guidance is required to be applied on a prospective basis, therefore the December 31, 2009 balance sheet reflects accounts receivable sold under the accounts receivable sales agreement as a reduction in accounts receivable, not as additional borrowings - see Note 14 for further discussion. Expenses associated with the sale of accounts receivable, including the purchaser's financing costs to purchase the accounts receivable, were \$1.7 million, \$0.5 million and \$0.3 million, in 2008, 2009, and 2010, respectively, and are included in interest expense.

Our Board of Directors has authorized a share repurchase program under which we may repurchase up to \$100.0 million of our common stock, although no more than \$50.0 million in any calendar year. We repurchased \$23.0 million under the share repurchase program during 2010. The remaining availability under the Board of Directors' authorization for stock repurchases is \$23.8 million. We have financed the repurchases and may finance additional repurchases through operating cash flow and from available borrowings under our revolving credit facility.

Management believes that cash flow from operations, including 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."

Restructuring

During 2010, we continued our operational restructuring plan which includes the transfer of additional production lines from Utica, New York to our manufacturing facility in Chihuahua, Mexico. We incurred \$2.4 million in costs associated with the restructuring during 2010. These costs were charged to cost of goods sold and include severance and other charges associated with the transfer of production to Mexico.

As part of our ongoing restructuring, in 2010 the Company decided to exit certain product offerings within our integrated operating room systems product line. These product offerings include the service arms and service managers. We incurred \$2.5 million in costs associated with this termination which were charged to cost of goods sold.

During 2010, we incurred \$1.5 million in restructuring costs associated with the consolidation of administrative functions in our CONMED Linvatec division. These costs were charged to other expense.

We will continue to restructure both operations and administrative functions as necessary throughout the organization. As the restructuring plan progresses, we will incur additional charges, including employee termination and other exit costs. Based on the criteria contained within FASB guidance, no accrual for such costs has been made at this time. We estimate restructuring costs will approximate \$2.0 million to \$3.0 million in 2011 and will be charged to cost of goods sold and other expense.

Refer to Note 16 to the Consolidated Financial Statements for further discussions regarding restructuring.

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, 2010.

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt	\$ 199,518	\$ 114,337	\$ 55,606	\$ 24,374	\$ 5,201
Purchase obligations	48,627	48,264	363	—	—
Operating lease obligations	30,752	5,905	9,704	5,767	9,376
Total contractual obligations	<u>\$ 278,897</u>	<u>\$ 168,506</u>	<u>\$ 65,673</u>	<u>\$ 30,141</u>	<u>\$ 14,577</u>

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 2011, which are expected to be approximately \$2.1 million. (See Note 9 to the Consolidated Financial Statements). The above table also does not include unrecognized tax benefits of approximately \$1.3 million, the timing and certainty of recognition for which is not known. (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”), performance share units (“PSUs”) 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 and PSUs are valued at the market value of the underlying stock on the date of grant. Stock options, SARs, RSUs and PSUs 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 14 to the Consolidated Financial Statements for a discussion of new accounting pronouncements.

Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Risk

Approximately 48% of our total 2010 consolidated net sales were to customers outside the United States. We have sales subsidiaries in a significant number of countries in Europe as well as Australia,

Canada and Korea. In those countries in which we have a direct presence, our sales are denominated in the local currency amounting to approximately 32% of our total net sales in 2010. The remaining 16% of sales to customers outside the United States was on an export basis and transacted in United States dollars.

Because a significant portion of our operations consist of sales activities in foreign jurisdictions, 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. During 2010, changes in foreign currency exchange rates increased sales by approximately \$9.6 million and income before income taxes by approximately \$6.8 million.

We manage our foreign currency transaction risks through the use of forward contracts to hedge forecasted cash flows associated with foreign currency transaction exposures. We account for these forward contracts as cash flow hedges. To the extent these forward contracts meet hedge accounting criteria, changes in their fair value are not included in current earnings but are included in Accumulated Other Comprehensive Loss. These changes in fair value will be recognized into earnings as a component of sales when the forecasted transaction occurs. The notional contract amounts for forward contracts outstanding at December 31, 2010 which have been accounted for as cash flow hedges totaled \$51.4 million. Net realized gains (losses) recognized for forward contracts accounted for as cash flow hedges approximated -\$0.4 million and \$2.0 million for the years ended December 31, 2009 and 2010, respectively. Net unrealized losses on forward contracts outstanding which have been accounted for as cash flow hedges and which have been included in other comprehensive income totaled \$1.2 million at December 31, 2010. It is expected these unrealized losses will be recognized in the consolidated statement of operations in 2011.

We also enter into forward contracts to exchange foreign currencies for United States dollars in order to hedge our currency transaction exposures on intercompany receivables denominated in foreign currencies. 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 applied hedge accounting to them. The notional contract amounts for forward contracts outstanding at December 31, 2010 which have not been designated as hedges totaled \$30.1 million. Net realized gains (losses) recognized in connection with those forward contracts not accounted for as hedges approximated -\$3.9 million and \$0.3 million for the years ended December 31, 2009 and 2010, respectively, offsetting gains (losses) on our intercompany receivables of \$4.6 million and -\$0.7 million for the years ended December 31, 2009 and 2010, respectively. These gains and losses have been recorded in selling and administrative expense in the consolidated statements of operations.

We record these forward foreign exchange contracts at fair value; the fair value for forward foreign exchange contracts outstanding at December 31, 2010 was \$2.0 million and is included in Other Current Liabilities in the Consolidated Balance Sheets.

Refer to Note 13 in the Consolidated Financial Statements for further discussion.

Interest Rate Risk

At December 31, 2010, we had approximately \$76.9 million of variable rate long-term debt outstanding under our senior credit agreement. Assuming no repayments other than our 2010 scheduled term loan payments, if market interest rates for similar borrowings averaged 1.0% more in 2011 than they did in 2010, interest expense would increase, and income before income taxes

would decrease by \$0.8 million. Comparatively, if market interest rates for similar borrowings average 1.0% less in 2011 than they did in 2010, our interest expense would decrease, and income before income taxes would increase by \$0.8 million.

Business Forward-Looking Statements

This Annual Report for the Fiscal Year Ended December 31, 2010 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;
- changes in foreign exchange and interest rates;
- 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;
- quality of our management and business abilities and the judgment of our personnel;
- the availability, terms and deployment of capital;
- the risk of litigation, especially patent litigation as well as the cost associated with patent and other litigation; and
- changes in regulatory requirements.

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, 2010. 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, 2010. The effectiveness of the Company's internal control over financial reporting as of December 31, 2010 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, 2010 and December 31, 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 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, 2010, 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 1 to the consolidated financial statements, the Company changed the manner in which it accounts for the undivided percentage ownership interest in receivables sold effective January 1, 2010.

As discussed in Note 15 to the consolidated financial statements, the Company changed the manner in which it accounts for convertible debt instruments effective January 1, 2009.

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
Albany, New York
February 28, 2011



Consolidated Balance Sheets

December 31, 2009 and 2010

(In thousands except share and per share amounts)

	2009	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,098	\$ 12,417
Accounts receivable, less allowance for doubtful accounts of \$1,175 in 2009 and \$1,066 in 2010	126,162	145,350
Inventories	164,275	172,796
Deferred income taxes	14,782	8,476
Prepaid expenses and other current assets	<u>10,293</u>	<u>11,153</u>
Total current assets	<u>325,610</u>	<u>350,192</u>
Property, plant and equipment, net	143,502	140,895
Deferred income taxes	1,953	2,009
Goodwill	290,505	295,068
Other intangible assets, net	190,849	190,091
Other assets	<u>5,994</u>	<u>7,518</u>
Total assets	<u>\$ 958,413</u>	<u>\$ 985,773</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 2,174	\$ 110,433
Accounts payable	26,210	21,692
Accrued compensation and benefits	25,955	28,411
Income taxes payable	677	973
Other current liabilities	<u>24,091</u>	<u>18,357</u>
Total current liabilities	<u>79,107</u>	<u>179,866</u>
Long-term debt	182,195	85,182
Deferred income taxes	97,916	106,046
Other long-term liabilities	<u>22,680</u>	<u>28,116</u>
Total liabilities	<u>381,898</u>	<u>399,210</u>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value \$.01 per share; authorized 500,000 shares, none issued or outstanding	—	—
Common stock, par value \$.01 per share; 100,000,000 authorized; 31,299,203 issued in 2009 and 2010, respectively	313	313
Paid-in capital	317,366	319,406
Retained earnings	325,370	354,020
Accumulated other comprehensive loss	(12,405)	(15,861)
Less: Treasury stock, at cost; 2,149,832 and 3,077,377 shares in 2009 and 2010, respectively	<u>(54,129)</u>	<u>(71,315)</u>
Total shareholders' equity	<u>576,515</u>	<u>586,563</u>
Total liabilities and shareholders' equity	<u>\$ 958,413</u>	<u>\$ 985,773</u>

See notes to consolidated financial statements.

Consolidated Statements of Operations

Years Ended December 31, 2008, 2009 and 2010

(In thousands except per share amounts)

	As Adjusted (Note 15)		
	2008	2009	2010
Net sales	\$ 742,183	\$ 694,739	\$ 713,723
Cost of sales	<u>359,802</u>	<u>357,407</u>	<u>348,339</u>
Gross profit	<u>382,381</u>	<u>337,332</u>	<u>365,384</u>
Selling and administrative expense	272,437	266,310	276,463
Research and development expense	33,108	31,837	29,652
Other expense	<u>1,577</u>	<u>10,916</u>	<u>2,176</u>
	<u>307,122</u>	<u>309,063</u>	<u>308,291</u>
Income from operations	75,259	28,269	57,093
Gain (loss) on early extinguishment of debt	1,947	1,083	(79)
Amortization of debt discount	4,823	4,111	4,244
Interest expense	<u>10,372</u>	<u>7,086</u>	<u>7,113</u>
Income before income taxes	62,011	18,155	45,657
Provision for income taxes	<u>22,022</u>	<u>6,018</u>	<u>15,311</u>
Net income	<u>\$ 39,989</u>	<u>\$ 12,137</u>	<u>\$ 30,346</u>
Earnings per share:			
Basic	\$ 1.39	\$ 0.42	\$ 1.06
Diluted	1.37	0.42	1.05

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2008, 2009 and 2010

(In thousands) As Adjusted (Note 15)

	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Shareholders' Equity
	Shares	Amount					
Balance at December 31, 2007	<u>31,299</u>	<u>\$ 313</u>	<u>\$ 309,734</u>	<u>\$ 276,324</u>	<u>\$ (505)</u>	<u>\$ (67,582)</u>	<u>\$ 518,284</u>
Common stock issued under employee plans			(1,483)	(1,940)		10,313	6,890
Tax benefit arising from common stock issued under employee plans			1,630				1,630
Stock-based compensation			4,178				4,178
Retirement of 2.50% convertible notes			(229)				(229)
Comprehensive income (loss):							
Foreign currency translation adjustments					(12,498)		
Pension liability (net of income tax benefit of \$10,566)					(18,029)		
Net income				39,989			
Total comprehensive income							9,462
Balance at December 31, 2008	<u>31,299</u>	<u>\$ 313</u>	<u>\$ 313,830</u>	<u>\$ 314,373</u>	<u>\$ (31,032)</u>	<u>\$ (57,269)</u>	<u>\$ 540,215</u>
Common stock issued under employee plans			(1,245)	(1,140)		3,140	755
Tax benefit arising from common stock issued under employee plans			561				561
Retirement of 2.50% convertible notes			(88)				(88)
Stock-based compensation			4,308				4,308
Comprehensive income:							
Foreign currency translation adjustments					7,241		
Pension liability (net of income tax expense of \$6,629)					11,310		
Cash flow hedging gain (net of income tax expense of \$45)					76		
Net income				12,137			
Total comprehensive income							30,764
Balance at December 31, 2009	<u>31,299</u>	<u>\$ 313</u>	<u>\$ 317,366</u>	<u>\$ 325,370</u>	<u>\$ (12,405)</u>	<u>\$ (54,129)</u>	<u>\$ 576,515</u>
Common stock issued under employee plans			(2,376)	(1,696)		5,791	1,719
Repurchase of treasury stock						(22,977)	(22,977)
Tax benefit arising from common stock issued under employee plans			227				227
Retirement of 2.50% convertible notes			(34)				(34)
Stock-based compensation			4,223				4,223
Comprehensive income (loss):							
Foreign currency translation adjustments					65		
Pension liability (net of income tax benefit of \$1,289)					(2,200)		
Cash flow hedging loss (net of income tax benefit of \$775)					(1,321)		
Net income				30,346			
Total comprehensive income							26,890
Balance at December 31, 2010	<u>31,299</u>	<u>\$ 313</u>	<u>\$ 319,406</u>	<u>\$ 354,020</u>	<u>\$ (15,861)</u>	<u>\$ (71,315)</u>	<u>\$ 586,563</u>

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2008, 2009 and 2010

(In thousands)

	As Adjusted (Note 15)		
	2008	2009	2010
Cash flows from operating activities:			
Net income	\$ 39,989	\$ 12,137	\$ 30,346
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	14,641	18,651	17,392
Amortization of debt discount	4,823	4,111	4,244
Amortization, all other	17,695	18,521	20,171
Stock-based compensation	4,178	4,308	4,223
Deferred income taxes	16,304	4,241	13,158
Sale of accounts receivable to (collections on behalf of) purchaser	(3,000)	(13,000)	(29,000)
Income tax benefit of stock option exercises	1,630	561	227
Excess tax benefit from stock option exercises	(1,738)	(886)	(485)
(Gain) loss on extinguishment of debt	(1,947)	(1,083)	79
Increase (decrease) in cash flows from changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(3,735)	(12,879)	9,342
Inventories	(8,110)	(9,454)	(20,317)
Accounts payable	(7,043)	(7,400)	(4,645)
Income taxes	2,627	(2,287)	(692)
Accrued compensation and benefits	(238)	5,630	2,516
Other assets	(4,469)	(197)	332
Other liabilities	(10,458)	4,054	(8,648)
	<u>21,160</u>	<u>12,891</u>	<u>7,897</u>
Net cash provided by operating activities	<u>61,149</u>	<u>25,028</u>	<u>38,243</u>
Cash flows from investing activities:			
Payments related to business acquisitions, net of cash acquired	(22,023)	(330)	(5,289)
Purchases of property, plant and equipment	(35,879)	(21,444)	(14,732)
Net cash used in investing activities	<u>(57,902)</u>	<u>(21,774)</u>	<u>(20,021)</u>
Cash flows from financing activities:			
Net proceeds from common stock issued under employee plans	7,347	1,198	2,452
Repurchase of treasury stock	—	—	(22,977)
Excess tax benefit from stock options exercises	1,738	886	485
Payments on senior credit agreement	(1,350)	(1,350)	(1,350)
Proceeds of senior credit agreement	4,000	6,000	12,000
Payments on mortgage notes	(1,109)	(1,425)	(824)
Payments on senior subordinated notes	(20,248)	(7,808)	(2,933)
Payments related to issuance of debt	—	—	(2,525)
Net change in cash overdrafts	4,270	(1,188)	66
Net cash used in financing activities	<u>(5,352)</u>	<u>(3,687)</u>	<u>(15,606)</u>
Effect of exchange rate changes on cash and cash equivalents	2,221	(1,280)	(297)
Net increase (decrease) in cash and cash equivalents	116	(1,713)	2,319
Cash and cash equivalents at beginning of year	11,695	11,811	10,098
Cash and cash equivalents at end of year	<u>\$ 11,811</u>	<u>\$ 10,098</u>	<u>\$ 12,417</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 9,381	\$ 6,303	\$ 6,025
Income taxes	7,397	3,650	3,257

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 had an accounts receivable sales agreement through November 4, 2010 at which time we repaid in full the \$24.0 million outstanding and terminated the agreement. Under this agreement, we and certain of our subsidiaries sold on an ongoing basis certain accounts receivable to CONMED Receivables Corporation (“CRC”), a wholly-owned, bankruptcy-remote, special-purpose subsidiary of CONMED Corporation. CRC in turn sold up to an aggregate \$40.0 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 were calculated as defined in the accounts receivable sales agreement, as amended. Effectively, collections on the pool of receivables flowed first to the purchaser and then to CRC, but to the extent that the purchaser’s share of collections was less than the amount of the purchaser’s asset interest, there was no recourse to CONMED or CRC for such shortfall. For receivables which had been sold, CONMED Corporation and its subsidiaries retained collection and administrative responsibilities as agent for the purchaser. As of

December 31, 2009, the undivided percentage ownership interest in receivables sold by CRC to the purchaser aggregated \$29.0 million which was accounted for as a sale and reflected in the balance sheet as a reduction in accounts receivable. Effective January 1, 2010, new accounting guidance requires such receivables sales to be accounted for as additional borrowings and recorded in the current portion of long term debt rather than as previously treated as a sale and reflected in the balance sheet as a reduction in accounts receivable. This guidance is required to be applied on a prospective basis, therefore the December 31, 2009 balance sheet reflects accounts receivable sold under the accounts receivable sales agreement as a reduction in accounts receivable, not as additional borrowings - see Note 14 for further discussion. Expenses associated with the sale of accounts receivable, including the purchaser’s financing costs to purchase the accounts receivable, were \$1.7 million, \$0.5 million and \$0.3 million, in 2008, 2009, and 2010, respectively, and are included in interest expense.

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

We have a history of growth through acquisitions. Assets and liabilities of acquired businesses are recorded 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 \$295.1 million and other intangible assets of \$190.1 million as of December 31, 2010.

In accordance with FASB guidance, goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to at least annual impairment testing. It is our policy to perform our annual impairment testing in the fourth quarter. The identification and measurement of goodwill impairment involves the estimation of the fair value of our reporting units. 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 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. We completed our goodwill impairment testing as of October 1, 2010 and determined that no impairment existed at that date. For our CONMED Electrosurgery, CONMED Endosurgery and CONMED Linvatec operating units, our impairment testing utilized CONMED Corporation’s EBIT multiple adjusted for a market-based control premium with the resultant fair values exceeding carrying values by 76% to 121%. Our CONMED Patient Care operating unit has the least excess of fair value over carrying value of our reporting units; we therefore utilized both a market-based approach and an

income approach when performing impairment testing with the resultant fair value exceeding carrying value by 15%. The income approach contained certain key assumptions including that revenue would resume historical growth patterns in 2011 while including certain cost savings associated with the operational restructuring plan completed during 2010. We continue to monitor events and circumstances for triggering events which would more likely than not reduce the fair value of any of our reporting units and require us to perform impairment testing.

Intangible assets with a finite life are amortized over the estimated useful life of the asset and are evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The carrying amount of an intangible asset subject to amortization is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset. An impairment loss is recognized by reducing the carrying amount of the intangible asset to its current fair value.

Customer relationship assets arose principally as a result of the 1997 acquisition of Linvatec Corporation. These assets represent the acquisition date fair value of existing customer relationships based on the after-tax income expected to be derived during their estimated remaining useful life. The useful lives of these customer relationships were not and are not limited by contract or any economic, regulatory or other known factors. The estimated useful life of the Linvatec customer relationship assets was determined as of the date of acquisition as a result of a study of the observed pattern of historical revenue attrition during the 5 years immediately preceding the acquisition of Linvatec Corporation. This observed attrition pattern was then applied to the existing customer relationships to derive the future expected retirement of the customer relationships. This analysis indicated an annual attrition rate of 2.6%. Assuming an exponential attrition pattern, this equated to an average remaining useful life of approximately 38 years for the Linvatec customer relationship assets. Customer relationship intangible assets arising as a result of other business acquisitions are being amortized over a weighted average life of 17 years. The weighted average life for customer relationship assets in aggregate is 34 years.

We evaluate the remaining useful life of our customer relationship intangible assets each reporting period in order to determine whether events and circumstances warrant a revision to the remaining period of amortization. In order to further evaluate the remaining useful life of our customer relationship intangible assets, we perform an analysis and assessment of actual customer attrition and activity as events and circumstances warrant. This assessment includes a comparison of customer activity since the acquisition date and review of customer attrition rates. In the event that our analysis of actual customer attrition rates indicates a level of attrition that is in excess of that which was originally contemplated, we would change the estimated useful life of the related customer relationship asset with the remaining carrying amount amortized prospectively over the revised remaining useful life.

We test our customer relationship assets for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Factors specific to our customer relationship assets which might lead to an impairment charge include a significant increase in the annual customer attrition rate or otherwise significant loss of customers, significant decreases in sales or current-period operating or cash flow losses or

a projection or forecast of losses. We do not believe that there have been events or changes in circumstances which would indicate the carrying amount of our customer relationship assets might not be recoverable.

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 \$108.3 million and \$111.7 million at December 31, 2009 and 2010, 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 loss. Transaction gains and losses are included in net income.

Foreign exchange and hedging activity

We manage our foreign currency transaction risks through the use of forward contracts to hedge forecasted cash flows associated with foreign currency transaction exposures. We account for these forward contracts as cash flow hedges. To the extent these forward contracts meet hedge accounting criteria, changes in their fair value are not included in current earnings but are included in accumulated other comprehensive loss. These changes in fair value will be reclassified into earnings as a component of sales when the forecasted transaction occurs.

We also enter into forward contracts to exchange foreign currencies for United States dollars in order to hedge our currency transaction exposures on intercompany receivables denominated in foreign currencies. 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 applied hedge accounting to them. We record these forward contracts at fair value with resulting gains and losses included in selling and administrative expense in the Consolidated Statements of Operations.

Income taxes

Deferred income 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 income tax provision generally represents the net change in the assets and liabilities for deferred income taxes. A valuation allowance is established when it is necessary to reduce deferred income tax assets to amounts for which realization is likely.

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 ongoing and future taxable income levels.

Deferred income 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 a repatriation of assets from a subsidiary or the sale or liquidation of a subsidiary. Deferred income 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.

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 \$13.4 million, \$11.3 million and \$7.9 million for 2008, 2009 and 2010, respectively.
- We sell to a diversified base of customers around the world and, therefore, believe there is no material concentration of credit risk.
- We assess the risk of loss on accounts receivable and adjust the allowance for doubtful accounts based on this risk assessment. Historically, losses on accounts receivable have not been material. Management believes that the allowance for doubtful accounts of \$1.1 million at December 31, 2010 is adequate to provide for probable losses resulting from accounts receivable.

Earnings per share

Basic earnings per share ("basic EPS") is computed by dividing net income by the weighted average number of shares outstanding

for the reporting period. Diluted earnings per share ("diluted EPS") gives effect during the reporting period to all dilutive potential shares outstanding resulting from employee share-based awards. The following table sets forth the calculation of basic and diluted earnings per share at December 31, 2008, 2009 and 2010, respectively:

	2008	2009	2010
Net income	<u>\$ 39,989</u>	<u>\$ 12,137</u>	<u>\$ 30,346</u>
Basic-weighted average shares outstanding	28,796	29,074	28,715
Effect of dilutive potential securities	<u>431</u>	<u>68</u>	<u>196</u>
Diluted-weighted average shares outstanding	<u>29,227</u>	<u>29,142</u>	<u>28,911</u>
Basic EPS	<u>\$ 1.39</u>	<u>\$ 0.42</u>	<u>\$ 1.06</u>
Diluted EPS	<u>\$ 1.37</u>	<u>\$ 0.42</u>	<u>\$ 1.05</u>

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 2.2 and 1.5 million at December 31, 2009 and 2010, respectively. Upon conversion of 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, 2010, 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, 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.

Stock-based compensation

All share-based payments to employees, including grants of employee stock options, restricted stock units, performance share units and stock appreciation rights are recognized in the financial statements based at their fair values. Compensation expense is generally recognized using a straight-line method over the vesting period. Compensation expense for performance share units is recognized using the graded vesting method.

We issue 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 loss

Accumulated other comprehensive loss consists of the following:

	Cash Flow Hedging Gain (Loss)	Pension Liability	Cumulative Translation Adjustments	Accumulated Other Comprehensive Loss
Balance, December 31, 2009	\$ 76	\$ (16,282)	\$ 3,801	\$ (12,405)
Pension liability, net of income tax	—	(2,200)	—	(2,200)
Cash flow hedging loss, net of income tax	(1,321)	—	—	(1,321)
Foreign currency translation adjustments	—	—	65	65
Balance, December 31, 2010	\$ (1,245)	\$ (18,482)	\$ 3,866	\$ (15,861)

Note 2 — Inventories

Inventories consist of the following at December 31,:

	2009	2010
Raw materials	\$ 48,959	\$ 49,038
Work in process	17,203	15,460
Finished goods	98,113	108,298
	<u>\$164,275</u>	<u>\$172,796</u>

Note 3 — Property, Plant and Equipment

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

	2009	2010
Land	\$ 4,486	\$ 4,486
Building and improvements	93,855	95,923
Machinery and equipment	148,641	161,635
Construction in progress	8,902	5,198
	255,884	267,242
Less: Accumulated depreciation	(112,382)	(126,347)
	<u>\$143,502</u>	<u>\$140,895</u>

We lease various manufacturing facilities, office facilities and equipment under operating leases. Rental expense on these operating leases was approximately \$3,443, \$5,988 and \$5,830 for the years ended December 31, 2008, 2009 and 2010, respectively. The aggregate future minimum lease commitments for operating leases at December 31, 2010 are as follows:

2011	\$ 5,905
2012	5,163
2013	4,541
2014	3,636
2015	2,131
Thereafter	9,376

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:

	2009	2010
Balance as of January 1,	\$ 290,245	\$ 290,505
Adjustments to goodwill resulting from business acquisitions finalized	300	4,378
Foreign currency translation	(40)	185
Balance as of December 31,	<u>\$ 290,505</u>	<u>\$ 295,068</u>

Total accumulated impairment losses (associated with our CONMED Endoscopic Technologies operating unit) aggregated \$46,689 at December 31, 2009 and 2010.

During 2010, the Company acquired the stock of a business for a cash purchase price of \$5.0 million. The fair value of this acquisition included assets of \$5.0 million related to in-process research and development and \$4.1 million in goodwill, and liabilities of \$2.4 million related to contingent consideration and \$1.7 million in deferred income tax liabilities. The in-process research and development and goodwill associated with the acquisition are not deductible for income tax purposes.

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

	2009	2010
CONMED Electrosurgery	\$ 16,645	\$ 16,645
CONMED Endosurgery	42,439	42,439
CONMED Linvatec	171,397	175,682
CONMED Patient Care	60,024	60,302
Balance as of December 31,	<u>\$ 290,505</u>	<u>\$ 295,068</u>

Other intangible assets consist of the following:

	Dec. 31, 2009		Dec. 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	\$ 127,594	\$ (36,490)	\$ 127,594	\$ (40,801)
Patents and other intangible assets	41,809	(30,408)	47,178	(32,224)
Unamortized intangible assets:				
Trademarks and tradenames	88,344	—	88,344	—
	<u>\$ 257,747</u>	<u>\$ (66,898)</u>	<u>\$ 263,116</u>	<u>\$ (73,025)</u>

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 34 years. Patents and other intangible assets are being amortized over a weighted average life of 15 years.

Trademarks and tradenames were recognized principally in connection with the 1997 acquisition of Linvatec Corporation. 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, our trademarks and tradenames intangible assets are not amortized.

Amortization expense related to intangible assets for the year ending December 31, 2010 and estimated amortization expense for each of the five succeeding years is as follows:

2010	\$ 6,127
2011	5,963
2012	5,910
2013	5,682
2014	5,210
2015	4,602

Note 5 — Long-Term Debt

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

	2009	2010
Revolving line of credit	\$ 10,000	\$ 22,000
Term loan borrowings on senior credit facility	56,287	54,938
2.50% convertible senior subordinated notes	106,770	108,189
Mortgage notes	11,312	10,488
Total long-term debt	184,369	195,615
Less: Current portion	2,174	110,433
	<u>\$ 182,195</u>	<u>\$ 85,182</u>

On November 30, 2010, we entered into the First Amendment to our Amended and Restated Credit Agreement (the "senior credit agreement") providing for an expanded revolving credit facility of \$250.0 million expiring on November 30, 2015. The senior credit agreement continues to include a \$135.0 million term loan. There were \$22.0 million in borrowings outstanding on the revolving credit facility as of December 31, 2010. Our available borrowings on the revolving credit facility at December 31, 2010 were \$218.5 million with approximately \$9.5 million of the facility set aside for outstanding letters of credit. There were \$54.9 million in borrowings outstanding on the term loan at December 31, 2010.

Borrowings outstanding on the revolving credit facility are due and payable on November 30, 2015. 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% (1.77% at December 31, 2010) or an alternative base rate; interest rates on the revolving credit facility portion of the senior credit agreement are at LIBOR plus 1.75% (2.02% at December 31, 2010) 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 0.25% for borrowings under the revolving credit facility.

The senior credit agreement is collateralized by substantially all of our personal property and assets. 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 are also required, under certain circumstances, to make mandatory prepayments from net cash proceeds from any issuance of equity and asset sales.

We have a mortgage note outstanding in connection with the property and facilities utilized by our CONMED Linvatec subsidiary bearing interest at 8.25% per annum with semiannual payments of principal and interest through June 2019. The principal balance outstanding on the mortgage note aggregated \$10.5 million at December 31, 2010. The mortgage note is collateralized by the CONMED Linvatec property and facilities.

We have outstanding \$112.1 million in 2.50% convertible senior subordinated notes due 2024 ("the Notes"). During 2010, we repurchased and retired \$3.0 million of the Notes for \$2.9 million and recorded a loss on the early extinguishment of debt of \$0.1 million. During 2009, we repurchased and retired \$9.9 million of the Notes for \$7.8 million and recorded a gain on the early extinguishment of debt of \$1.1 million net of the write-offs of \$0.1 million in unamortized deferred financing costs and \$1.0 million in unamortized Notes discount. 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, 2010, 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 have the right to put to us some or all of the Notes for repurchase on November 15, 2011, 2014 and 2019 and, provided the terms of the indenture are satisfied, we will be required to repurchase the Notes, and therefore we have classified the Notes as a current liability.

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.

In May 2008, the FASB issued guidance which specifies that issuers of convertible debt instruments that permit or require the issuer to pay cash upon conversion should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The Company was required to apply the guidance retrospectively to all past periods presented. We adopted this guidance on January 1, 2009 related to the Notes.

Our effective borrowing rate for nonconvertible debt at the time of issuance of the Notes was estimated to be 6.67%, which resulted in \$34.6 million of the \$150.0 million aggregate principal amount of Notes issued, or \$21.8 million after taxes, being attributable to equity. For the years ended December 31, 2008, 2009 and 2010, we have recorded interest expense related to the amortization of debt discount on the Notes of \$4.8 million, \$4.1 million and

\$4.2 million, respectively, at the effective interest rate of 6.67%. The debt discount on the Notes is being amortized through November 2011. For the years ended December 31, 2008, 2009 and 2010, we have recorded interest expense on the Notes of \$3.7 million, \$2.9 million and \$2.8 million, respectively, at the contractual coupon rate of 2.50%.

Amounts recognized in the consolidated balance sheets related to the Notes consist of the following at December 31.:

	2009	2010
Principal value of the Notes	\$ 115,093	\$ 112,093
Unamortized discount	(8,323)	(3,904)
Carrying value of the Notes	<u>\$ 106,770</u>	<u>\$ 108,189</u>
Equity component	<u>\$ 21,491</u>	<u>\$ 21,438</u>

The scheduled maturities of long-term debt outstanding at December 31, 2010 are as follows:

2011	\$ 114,337
2012	54,556
2013	1,050
2014	1,140
2015	23,234
Thereafter	5,201

Note 6 — Income Taxes

The provision for income taxes for the years ended December 31, 2008, 2009 and 2010 consists of the following:

	2008	2009	2010
Current tax expense:			
Federal	\$ 2,094	\$ (1,281)	\$ (717)
State	498	791	232
Foreign	3,126	2,267	2,638
	5,718	1,777	2,153
Deferred income tax expense	16,304	4,241	13,158
Provision for income taxes	<u>\$ 22,022</u>	<u>\$ 6,018</u>	<u>\$ 15,311</u>

A reconciliation between income taxes computed at the statutory federal rate and the provision for income taxes for the years ended December 31, 2008, 2009 and 2010 follows:

	2008	2009	2010
Tax provision at statutory rate based on income before income taxes	35.00%	35.00%	35.00%
State income taxes	1.47	5.59	2.55
Stock-based compensation	0.43	1.59	0.01
Foreign income taxes	(0.58)	(2.90)	0.07
Research & development credit	(1.45)	(4.46)	(1.83)
Settlement of taxing authority examinations	—	(5.60)	(3.27)
Other nondeductible permanent differences	0.91	2.86	1.22
Other, net	(0.27)	1.07	(0.22)
	<u>35.51%</u>	<u>33.15%</u>	<u>33.53%</u>

The tax effects of the significant temporary differences which comprise the deferred income tax assets and liabilities at December 31, 2009 and 2010 are as follows:

	2009	2010
Assets:		
Inventory	\$ 3,912	\$ 4,509
Net operating losses	780	3,091
Capitalized research and development	4,757	3,213
Deferred compensation	2,331	2,381
Accounts receivable	2,524	2,903
Employee benefits	2,157	2,877
Accrued pension	3,436	4,309
Research and development credit	3,814	4,581
Foreign tax credit	1,513	2,079
Other	10,390	8,558
Valuation allowance	(1,058)	(226)
	<u>34,556</u>	<u>38,275</u>
Liabilities:		
Goodwill and intangible assets	95,049	108,230
Depreciation	4,548	7,446
State taxes	2,090	3,443
Contingent interest	14,050	14,717
	<u>115,737</u>	<u>133,836</u>
Net liability	<u>\$ (81,181)</u>	<u>\$ (95,561)</u>

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

	2008	2009	2010
U.S. income	\$ 51,616	\$ 10,108	\$ 37,953
Foreign income	10,395	8,047	7,704
Total income	<u>\$ 62,011</u>	<u>\$ 18,155</u>	<u>\$ 45,657</u>

The gross amount of Federal net operating loss carryforwards available is \$10.1 million. This carryforward begins to expire in 2026. Approximately \$1.7 million of the gross Federal net operating loss is attributable to stock-based compensation windfall tax deductions. In accordance with FASB guidance, the \$0.6 million windfall tax benefit on the \$1.7 million net operating loss carryforward has not been recorded as a deferred tax asset. The \$0.6 million tax benefit will be recorded in additional paid-in capital when realized.

The amount of Federal Research and Development credit carryforward available is \$4.6 million. These credits begin to expire in 2024. The total amount of Federal Foreign Tax Credit carryforward available is \$2.1 million. These credits begin to expire in 2017.

Deferred tax amounts include approximately \$3.5 million of future tax benefits associated with state tax credits which have an indefinite carryforward period.

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 2009.

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 \$47.0 million at December 31, 2010.) It is not practicable given the complexities of the foreign tax credit calculation to estimate the tax due upon any possible repatriation.

We recognize tax liabilities in accordance with the provisions for accounting for uncertainty in income taxes. Such guidance 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 following table summarizes the activity related to our unrecognized tax benefits for the years ending December 31,:

	2008	2009	2010
Balance as of January 1,	\$ 1,866	\$ 2,869	\$ 1,869
Increases for positions taken in prior periods	212	139	52
Increases for positions taken in current periods	1,117	183	166
Decreases in unrecorded tax positions related to settlement with the taxing authorities	(154)	(1,322)	(757)
Decreases in unrecorded tax positions related to lapse of statute of limitations	(172)	—	—
Balance as of December 31,	<u>\$ 2,869</u>	<u>\$ 1,869</u>	<u>\$ 1,330</u>

If the total unrecognized tax benefits of \$1.3 million at December 31, 2010 were recognized, it would reduce our annual effective tax rate. The amount of interest accrued in 2010 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 taxing authority examinations for the tax years 2006 through 2008. The range of change in unrecognized tax benefits is estimated between \$0.0 million and \$0.9 million.

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, 2009 and 2010, 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. During 2010, we repurchased 1.2 million shares for an aggregate cost of \$23.0 million. No stock repurchases were made in 2008 or 2009. Through December 31, 2010, we have repurchased a total of 3.3 million shares of common stock aggregating \$76.2 million under this authorization.

We have reserved 6.0 million shares of common stock for issuance to employees and directors under three shareholder-approved share-based compensation plans (the "Plans") of which approximately 1.0 million shares remain available for grant at December 31, 2010. The exercise price on all outstanding options and stock appreciation rights ("SARs") is equal to the quoted fair market value of the stock at the date of grant. Restricted stock units ("RSUs") and performance stock units ("PSUs") are valued at the

market value of the underlying stock on the date of grant. Stock options, SARs, RSUs and PSUs 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 and PSUs are from the Company's treasury stock.

Total pre-tax stock-based compensation expense recognized in the Consolidated Statements of Operations was \$4.2 million, \$4.3 million and \$4.2 million for the years ended December 31, 2008, 2009 and 2010, respectively. This amount is included in selling and administrative expenses on the Consolidated Statements of Operations. Tax related benefits of \$1.1 million, \$1.3 million and \$1.6 million were also recognized for the years ended December 31, 2008, 2009 and 2010. Cash received from the exercise of stock options was \$6.9 million, \$0.7 million and \$2.0 million for the years ended December 31, 2008, 2009 and 2010, 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, 2008, 2009 and 2010 was \$9.35, \$7.03 and \$7.72, 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, 2008, 2009 and 2010, respectively: risk-free interest rate of 3.25%, 2.48% and 2.07%; volatility factor of the expected market price of the Company's common stock of 30.36%, 37.17% and 36.72%; a weighted-average expected life of the option and SAR of 5.7 years for 2008, 6.2 years for 2009, and 6.4 years for 2010; 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 U.S. Treasury bond with a maturity date closest 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 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, 2010.:

	Number of Shares (in 000's)	Weighted-Average Exercise Price
Outstanding at December 31, 2009	2,451	\$ 23.70
Granted	149	\$ 19.26
Forfeited	(100)	\$ 25.30
Exercised	(163)	\$ 14.68
Outstanding at December 31, 2010	<u>2,337</u>	<u>\$ 23.98</u>
Exercisable at December 31, 2010	<u>1,816</u>	<u>\$ 24.75</u>

The weighted average remaining contractual term for stock options and SARs outstanding and exercisable at December 31, 2010 was 4.5 years and 3.5 years, respectively. The aggregate intrinsic value of stock options and SARs outstanding and exercisable at December 31, 2010 was \$8.1 million and \$5.2 million, respectively. The aggregate intrinsic value of stock options and SARs exercised during the years ended December 31, 2008, 2009 and 2010 was \$4.0 million, \$0.2 million and \$1.2 million, respectively.

The following table illustrates the RSU and PSU activity for the year ended December 31, 2010. There were no RSU's granted prior to 2006 and no PSU's granted prior to 2010.

	Number of Shares (in 000's)	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2009	425	\$ 22.03
Granted	270	\$ 19.26
Vested	(105)	\$ 22.69
Forfeited	(56)	\$ 21.84
Outstanding at December 31, 2010	<u>534</u>	<u>\$ 20.54</u>

The weighted average fair value of awards of RSUs and PSUs granted in the years ended December 31, 2008, 2009 and 2010 was \$26.94, \$17.02 and \$19.26, respectively.

The total fair value of shares vested was \$1.3 million, \$1.8 million and \$2.8 million for the years ended December 31, 2008, 2009 and 2010, respectively.

As of December 31, 2010, there was \$11.0 million of total unrecognized compensation cost related to nonvested stock options, SARs, RSUs and PSUs granted under the Plan which is expected to be recognized over a weighted average period of 3.3 years.

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 2010, we issued approximately 24,300 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. Our CONMED Endosurgery, CONMED Electrosurgery and CONMED Linvatec operating segments also have similar economic characteristics and therefore qualify for aggregation. Our CONMED Patient Care and CONMED Endoscopic Technologies operating units do not qualify for aggregation 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:

	2008	2009	2010
Arthroscopy	\$ 291,910	\$ 269,820	\$ 288,421
Powered Surgical Instruments	<u>155,659</u>	<u>144,014</u>	<u>142,288</u>
CONMED Linvatec	447,569	413,834	430,709
CONMED Electrosurgery	100,493	94,959	97,210
CONMED Endosurgery	<u>64,459</u>	<u>66,027</u>	<u>69,004</u>
CONMED Linvatec, Electrosurgery, and Endosurgery	612,521	574,820	596,923
CONMED Patient Care	78,384	70,978	68,283
CONMED Endoscopic Technologies	<u>51,278</u>	<u>48,941</u>	<u>48,517</u>
Total	<u>\$ 742,183</u>	<u>\$ 694,739</u>	<u>\$ 713,723</u>

Total assets, capital expenditures, depreciation and amortization information are impracticable to present by reportable segment because the necessary information is not available.

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

	2008	2009	2010
CONMED Linvatec, Electrosurgery, and Endosurgery	\$ 98,101	\$ 62,715	\$ 77,271
CONMED Patient Care	2,259	(1,263)	(38)
CONMED Endoscopic Technologies	(7,411)	(7,904)	(1,315)
Corporate	<u>(17,690)</u>	<u>(25,279)</u>	<u>(18,825)</u>
Income from operations	75,259	28,269	57,093
Gain (loss) on early extinguishment of debt	1,947	1,083	(79)
Amortization of bond discount	4,823	4,111	4,244
Interest expense	<u>10,372</u>	<u>7,086</u>	<u>7,113</u>
Income before income taxes	<u>\$ 62,011</u>	<u>\$ 18,155</u>	<u>\$ 45,657</u>

Net sales information for geographic areas consists of the following:

	2008	2009	2010
United States	\$ 411,773	\$ 385,770	\$ 371,914
Canada	52,792	48,713	61,593
United Kingdom	44,123	35,155	31,576
Japan	28,026	29,244	32,226
Australia	30,270	30,159	34,564
All other countries	<u>175,199</u>	<u>165,698</u>	<u>181,850</u>
Total	<u>\$ 742,183</u>	<u>\$ 694,739</u>	<u>\$ 713,723</u>

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, 2009 and 2010. No single customer represented over 10% of our consolidated net sales for the years ended December 31, 2008, 2009 and 2010.

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 \$2.7 million, \$6.8 million and \$6.5 million during the years ended December 31, 2008, 2009 and 2010, respectively.

During the first quarter of 2009, the Company announced the freezing of benefit accruals under the defined benefit pension plan for United States employees ("the Plan") effective May 14, 2009. As a result, the Company recorded a curtailment gain of

\$4.4 million and a reduction in accrued pension of \$11.4 million which is included in other long term liabilities. During 2009, the Company recorded a one-time discretionary \$4.0 million employer 401(k) contribution and in 2010 permanently increased the 401(k) employer contribution to offset the negative impact of the Plan freeze.

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,:

	2009	2010
Accumulated Benefit Obligation	\$ 61,222	\$ 66,136
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 76,610	61,222
Service cost	187	219
Interest cost	3,920	3,585
Actuarial loss (gain)	(4,802)	5,538
Curtailement gain	(11,358)	—
Benefits paid	(3,335)	(4,428)
Projected benefit obligation at end of year	\$ 61,222	\$ 66,136
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 45,381	\$ 52,842
Actual gain on plan assets	6,723	4,962
Employer contributions	4,073	1,933
Benefits paid	(3,335)	(4,428)
Fair value of plan assets at end of year	\$ 52,842	\$ 55,309
Funded status	\$ (8,380)	\$ (10,827)

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

	2009	2010
Accrued long-term pension liability	\$ 8,380	\$ 10,827
Accumulated other comprehensive loss	(25,823)	(29,313)

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

	2009	2010
Discount rate	5.86%	5.41%
Expected return on plan assets	8.00%	8.00%

Accumulated other comprehensive loss for the years ended December 31, 2009 and 2010 consists of net actuarial losses of \$25,823 and \$29,313, respectively, not yet recognized in net periodic pension cost (before income taxes).

Other changes in plan assets and benefit obligations recognized in other comprehensive income in 2010 are as follows:

Current year actuarial loss	\$ (4,803)
Amortization of actuarial loss	1,313
Total recognized in other comprehensive loss	\$ (3,490)

The estimated portion of net actuarial loss in accumulated other comprehensive loss that is expected to be recognized as a component of net periodic pension cost in 2011 is \$1,464.

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

	2008	2009	2010
Service cost—benefits earned during the period	\$ 5,835	\$ 1,887	\$ 219
Interest cost on projected benefit obligation	3,977	3,920	3,585
Return on plan assets	(4,210)	(3,817)	(4,227)
Curtailement gain	—	(4,368)	—
Transition amount	4	1	—
Prior service cost	(351)	(88)	—
Amortization of loss	1,320	1,627	1,313
Net periodic pension cost	\$ 6,575	\$ (838)	\$ 890

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

	2008	2009	2010
Discount rate	6.48%	5.97%*	5.86%
Expected return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	3.50%	3.50%	N/A

*For the year ending December 31, 2009, the discount rate used in determining pension expense was 5.97% in the first quarter of 2009; the discount rate used for purposes of remeasuring plan liabilities as of the date the plan freeze was approved and for purposes of measuring pension expense for the remainder of 2009 was 7.30%.

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
	2009	2010	2011
Equity securities	64%	70%	75%
Debt securities	36	30	25
Total	100%	100%	100%

As of December 31, 2010, the Plan held 27,562 shares of our common stock, which had a fair value of \$0.7 million. We believe that our long-term asset allocation on average will approximate the targeted allocation. We regularly review our actual asset allocation and periodically rebalance the pension plan's investments to our targeted allocation when deemed appropriate.

The following table sets forth the fair value of Plan assets as of December 31,:

	2009	2010
Common Stock	\$ 20,809	\$ 24,035
Money Market Fund	16,093	14,818
Equity Funds	13,268	14,456
Fixed Income Securities	2,672	2,000
Total Assets at Fair Value	\$ 52,842	\$ 55,309

FASB guidance, defines fair value, establishes a framework for measuring fair value and related disclosure requirements. A valuation hierarchy was established for disclosure of the inputs to the valuations used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from or corroborated by observable market data through correlation. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2009 and 2010:

Common Stock:	Common stock is valued at the closing price reported on the common stock's respective stock exchange and is classified within Level 1 of the valuation hierarchy.
Money Market Fund:	These investments are public investment vehicles valued using \$1 for the Net Asset Value (NAV). The money market fund is classified within Level 2 of the valuation hierarchy.
Equity Funds:	These investments are public investment vehicles valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market and is classified within Level 1 of the valuation hierarchy.
Fixed Income Securities:	Valued at the closing price reported on the active market on which the individual securities are traded and are classified within Level 1 of the valuation hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2010:

	Level 1	Level 2	Total
Common Stock	\$ 24,035	\$ —	\$ 24,035
Money Market Fund	—	14,818	14,818
Equity Funds	14,456	—	14,456
Fixed Income Securities	2,000	—	2,000
Total Assets at Fair Value	<u>\$ 40,491</u>	<u>\$ 14,818</u>	<u>\$ 55,309</u>

We are required and expect to contribute approximately \$2.1 million to our pension plan for the 2011 Plan year.

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, 2010 and reflect the impact of expected future employee service.

2011	\$ 3,475
2012	2,331
2013	2,851
2014	2,966
2015	3,352
2016-2020	19,471

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 subpoena 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, maximum policy limits and certain exclusions in the respective policies or required as a matter of law. In some cases we may be entitled to indemnification by third parties. 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, or indemnification obligation of a third party 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 financial condition, results of operations or cash flows.

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, that the carriers will be solvent or that such insurance will be available to us in the future at a reasonable cost.

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 would not have a material adverse effect on our financial condition, results of operations or cash flows.

Note 11 — Other Expense

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

	2008	2009	2010
New plant/facility consolidation costs	\$ 1,577	\$ 2,726	\$ —
Net pension gain	—	(1,882)	—
Product recall	—	5,992	—
CONMED Endoscopic Technologies division consolidation costs	—	4,080	679
CONMED Linvatec division consolidation costs	—	—	1,497
Other expense	<u>\$ 1,577</u>	<u>\$ 10,916</u>	<u>\$ 2,176</u>

During 2008, we announced a plan to restructure certain of our operations. We incurred \$1.6 million and \$2.7 million in the years ending December 31, 2008 and 2009, respectively, related to the consolidation of certain domestic distribution activities in a new leased consolidated distribution center in Atlanta, Georgia (see Note 16).

During 2009, we elected to freeze benefit accruals under the defined benefit pension plan for United States employees, effective May 14, 2009. As a result, we recorded a net pension gain of \$1.9 million in the first quarter of 2009 associated with the elimination of future benefit accruals under the pension plan (see Note 9).

During 2009, we announced a voluntary recall of certain model numbers of the PRO5 & PRO6 series battery handpieces and certain lots of the MC5057 Universal Cable used with certain of CONMED Linvatec's powered handpieces. Current models of products are not affected. The cost of this recall is expected to be approximately \$6.0 million and we have recorded this cost in 2009. We have performed repairs on \$5.1 million of the total \$6.0 million of expected costs.

During 2009, we elected to consolidate the administrative offices and operations of the CONMED Endoscopic Technologies division from its offices in Chelmsford, Massachusetts to our Corporate headquarters in Utica, New York. The sales force and product portfolio remain unchanged and CONMED Endoscopic Technologies continues to operate as a separate division of the Company. We incurred a total of \$4.9 million in charges of which \$4.1 million have been recorded in other expense and include charges relating to severance, lease impairment costs, write down of fixed assets and other transition costs. The remaining \$0.8 million in costs relate to the write-down of inventory and is included in cost of goods sold. During 2010, we recorded a lease impairment charge of \$0.7 million related to our Chelmsford, Massachusetts facility.

During 2010, we consolidated certain administrative functions in our CONMED Linvatec division and incurred \$1.5 million in severance related restructuring costs.

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:

	2008	2009	2010
Balance as of January 1,	\$ 3,306	\$ 3,341	\$ 3,383
Provision for warranties	3,581	3,638	3,510
Claims made	(3,546)	(3,596)	(3,530)
Balance as of December 31,	<u>\$ 3,341</u>	<u>\$ 3,383</u>	<u>\$ 3,363</u>

Note 13 — Fair Value Measurement

We enter into derivative instruments for risk management purposes only. We operate internationally and, in the normal course of business, are exposed to fluctuations in interest rates, foreign exchange rates and commodity prices. These fluctuations can increase the costs of financing, investing and operating the business. We use forward contracts, a type of derivative instrument, to manage certain foreign currency exposures.

By nature, all financial instruments involve market and credit risks. We enter into forward contracts with major investment grade financial institutions and have policies to monitor the credit risk of those counterparties. While there can be no assurance, we do not anticipate any material non-performance by any of these counterparties.

Foreign Currency Forward Contracts. We hedge forecasted intercompany sales denominated in foreign currencies through the use of forward contracts. We account for these forward contracts as cash flow hedges. To the extent these forward contracts meet hedge accounting criteria, changes in their fair value are not included in current earnings but are included in Accumulated Other Comprehensive Loss. These changes in fair value will be recognized into earnings as a component of sales when the forecasted transaction occurs. The notional contract amounts for forward contracts outstanding at December 31, 2010 which have been accounted for as cash flow hedges totaled \$51.4 million. Net realized gains (losses) recognized for forward contracts accounted for as cash flow hedges approximated -\$0.4 million and \$2.0 million for the years ended December 31, 2009 and 2010, respectively. Net unrealized losses on forward contracts outstanding which have been accounted for as cash flow hedges and which have been included in other comprehensive income totaled \$1.2 million at December 31, 2010. It is expected these unrealized losses will be recognized in the consolidated statement of operations in 2011.

We also enter into forward contracts to exchange foreign currencies for United States dollars in order to hedge our currency transaction exposures on intercompany receivables denominated in foreign currencies. 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 applied hedge accounting to them. The notional contract amounts for forward contracts outstanding at December 31, 2010 which have not been designated as hedges totaled \$30.1 million. Net realized gains (losses) recognized in connection with those forward contracts not accounted for as hedges approximated -\$3.9 million and \$0.3 million for the years ended December 31, 2009 and 2010, respectively, offsetting gains (losses) on our intercompany receivables of \$4.6 million and -\$0.7 million for the years ended December 31, 2009 and 2010, respectively. These gains and losses have been recorded in selling and administrative expense in the consolidated statements of operations.

We record these forward foreign exchange contracts at fair value; the following table summarizes the fair value for forward foreign exchange contracts outstanding at December 31, 2010:

	Asset Balance Sheet Location	Fair Value	Liabilities Balance Sheet Location	Fair Value	Net Fair Value
Derivatives designated as hedged instruments:					
Foreign					
Exchange Contracts	Other current liabilities	\$ (8)	Other current liabilities	\$ 1,983	\$ 1,975
Derivatives not designated as hedging instruments:					
Foreign					
Exchange Contracts	Other current liabilities	(12)	Other current liabilities	58	46
Total derivatives		<u>\$ (20)</u>		<u>\$ 2,041</u>	<u>\$ 2,021</u>

Our forward foreign exchange contracts are subject to a master netting agreement and qualify for netting in the consolidated balance sheets. Accordingly, we have recorded the net fair value of \$2.0 million in other current liabilities.

Fair Value Disclosure. FASB guidance defines fair value, establishes a framework for measuring fair value and related disclosure requirements. This guidance applies when fair value measurements are required or permitted. The guidance indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. Fair value is defined based upon an exit price model.

Valuation Hierarchy. A valuation hierarchy was established for disclosure of the inputs to the valuations used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from or corroborated by observable market data through correlation. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Valuation Techniques. Liabilities carried at fair value and measured on a recurring basis as of December 31, 2010 consist of forward foreign exchange contracts and two embedded derivatives associated with our 2.50% convertible senior subordinated notes (the "Notes"). The value of the forward foreign exchange contract liabilities was determined within Level 2 of the valuation hierarchy and is listed in the table above. The value of the two embedded derivatives associated with the Notes was determined within Level 2 of the valuation hierarchy and was not material either individually or in the aggregate to our financial position, results of operations or cash flows.

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 approximate fair value. The fair value of the Notes approximated \$108.3 million and \$111.7 million at December 31, 2009 and December 31, 2010, respectively, based on their quoted market price. See Note 5 for additional discussion of the Notes.

Note 14 — New Accounting Pronouncements

In June 2009, the FASB issued guidance which requires additional disclosures about the transfer and derecognition of financial assets, eliminates the concept of qualifying special-purpose entities, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor's interest in transferred financial assets. Our accounts receivable sales agreement under which a wholly-owned, bankruptcy-remote, special purpose subsidiary of CONMED Corporation sells an undivided percentage ownership interest in receivables to a bank is no longer permitted to be accounted for as a sale and reduction in accounts receivable. We adopted this guidance effective January 1, 2010 and as a result, accounts receivable sold under the agreement were recorded as additional borrowings rather than as a reduction in accounts receivable prior to our payment in full of the outstanding balance and termination of the agreement on November 4, 2011.

Note 15 — Convertible Senior Subordinated Notes

In May 2008, the FASB issued guidance which specifies that issuers of convertible debt instruments that permit or require the issuer to pay cash upon conversion should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The Company was required to apply the guidance retrospectively to all past periods presented. We adopted this guidance on January 1, 2009 related to our 2.50% convertible senior subordinated notes due 2024 ("the Notes").

Our effective borrowing rate for nonconvertible debt at the time of issuance of the Notes was estimated to be 6.67%, which resulted in \$34.6 million of the \$150.0 million aggregate principal amount of Notes issued, or \$21.8 million after taxes, being attributable to equity. For the years ended December 31, 2008, 2009 and 2010, we have recorded interest expense related to the amortization of debt discount on the Notes of \$4.8 million, \$4.1 million and \$4.2 million, respectively, at the effective interest rate of 6.67%. The debt discount on the Notes is being amortized through November 2011. For the years ended December 31, 2008, 2009 and 2010, we have recorded interest expense on the Notes of \$3.7 million, \$2.9 million and \$2.8 million, respectively, at the contractual coupon rate of 2.50%.

The following tables illustrate the effects of adopting the new guidance on each Consolidated Statement of Operations and Consolidated Statement of Cash Flows for the year ended December 31, 2008:

	As Originally Reported	As Adjusted	Effect of Change
Consolidated statement of operations for the year ended December 31, 2008:			
Gain on early extinguishment of debt	\$ 4,376	\$ 1,947	\$ (2,429)
Amortization of debt discount	—	4,823	4,823
Income before income taxes	69,263	62,011	(7,252)
Provision for income taxes	24,702	22,022	(2,680)
Net income	44,561	39,989	(4,572)
EPS: Basic	\$ 1.55	\$ 1.39	\$ (.16)
Diluted	1.52	1.37	(.15)
Consolidated statement of cash flow for the year ended December 31, 2008:			
Net income	\$ 44,561	\$ 39,989	\$ (4,572)
Amortization of debt discount	—	4,823	4,823
Deferred income taxes	18,984	16,304	(2,680)

Note 16 — Restructuring

During 2008, 2009, and 2010 we incurred the following restructuring costs:

	2008	2009	2010
New plant/facility consolidation costs	\$ 2,470	\$ 11,859	\$ 2,397
CONMED Endoscopic Technologies division consolidation	—	845	—
Termination of a product offering	—	—	2,489
Restructuring costs included in cost of sales	\$ 2,470	\$ 12,704	\$ 4,886
New plant/facility consolidation costs	\$ 1,577	\$ 2,726	\$ —
CONMED Endoscopic Technologies division consolidation	—	4,080	679
CONMED Linvatec division consolidation costs	—	—	1,497
Restructuring costs included in other expense	\$ 1,577	\$ 6,806	\$ 2,176

Note 17 — Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data for 2009 and 2010 are as follows:

	Three Months Ended				
	2009	March	June	September	December
Net sales	\$	164,062	\$ 164,569	\$ 175,475	\$ 190,633
Gross profit		76,352	77,312	87,636	96,032
Net income		4,485	1,409	1,288	4,955
EPS: Basic	\$.15	\$.05	\$.04	\$.17
Diluted		.15	.05	.04	.17
2010		March	June	September	December
Net sales	\$	176,365	\$ 181,086	\$ 172,195	\$ 184,077
Gross profit		91,795	93,683	88,983	90,923
Net income		7,319	7,306	8,758	6,963
EPS: Basic	\$.25	\$.25	\$.31	\$.25
Diluted		.25	.25	.31	.24

During 2008, we announced a plan to restructure certain of our operations. For the years ending December 31, 2008, 2009 and 2010, we charged \$2.5 million, \$11.9 million, and \$2.4 million, respectively, in restructuring related expense to cost of goods sold. In 2008 and 2009, these charges represent startup activities associated with a new manufacturing facility in Chihuahua, Mexico and the closure of two Utica, New York area manufacturing facilities. These costs include under-utilization of production facilities, accelerated depreciation, severance and other charges. During 2010, we continued our operational restructuring plan which includes the transfer of additional production lines from Utica, New York to Chihuahua, Mexico. These costs include severance and other charges associated with the transfer of production lines. For the years ended December 31, 2008 and 2009 we charged \$1.6 million and \$2.7 million, respectively, in restructuring related expense to other expense. These charges relate to the consolidation of certain domestic distribution activities in a new leased consolidated distribution center in Atlanta, Georgia.

During 2009, we elected to consolidate the administrative offices and operations of the CONMED Endoscopic Technologies division from its offices in Chelmsford, Massachusetts to our Corporate headquarters in Utica, New York. The sales force and product portfolio remain unchanged and CONMED Endoscopic Technologies continues to operate as a separate division of the Company. During 2009, we incurred a total of \$4.9 million in charges of which \$4.1 million have been recorded in other expense and include charges relating to severance, lease impairment, write-down of fixed assets and other transition costs. The remaining \$0.8 million in costs relate to the write-down of inventory and is included in cost of goods sold. During 2010, we recorded a further lease impairment charge of \$0.7 million related to our Chelmsford facility.

As part of our ongoing restructuring, the Company discontinued certain product offerings within our CONMED Linvatec portfolio. These product offerings include the service arms and service managers associated with our integrated operating room systems and equipment line. We incurred \$2.5 million in costs associated with this termination of a product offering which were charged to cost of goods sold.

During 2010, we incurred \$1.5 million in severance costs associated with the consolidation of administrative functions in our CONMED Linvatec division. These costs were charged to other expense.

Unusual Items Included In Selected Quarterly Financial Data:

2009

First Quarter

During the first quarter of 2009, we recorded a charge of \$3.4 million related to the restructuring of certain of our operations; \$2.9 million of the charge is recorded in cost of goods sold and \$0.5 million is recorded in other expense— see Note 11 and Note 16.

During the first quarter of 2009, we elected to freeze benefit accruals under the defined benefit pension plan for United States employees, effective May 14, 2009. As a result, we recorded a net pension gain in other expense of \$1.9 million associated with the elimination of future benefit accruals under the pension plan – see Note 9 and Note 11.

During the first quarter of 2009, we repurchased and retired \$9.9 million of the Notes for \$7.8 million and recorded a gain on the early extinguishment of debt of \$1.1 million net of the write-offs of \$0.1 million in unamortized deferred financing costs and \$1.0 million in unamortized debt discount – see Note 5.

Second Quarter

During the second quarter of 2009, we recorded a charge of \$4.4 million related to the restructuring of certain of our operations; \$3.7 million of the charge is recorded in cost of goods sold and \$0.7 million is recorded in other expense – see Note 11 and Note 16.

Third Quarter

During the third quarter of 2009, we recorded a charge of \$3.3 million related to the restructuring of certain of our operations; \$2.2 million of the charge is recorded in cost of goods sold and \$1.1 million is recorded in other expense – see Note 11 and Note 16.

During the third quarter of 2009, we recorded a charge of \$6.0 million in other expense related to the voluntary recall of certain model numbers of the PRO5 & PRO6 series battery handpieces and certain lots of the MC5057 Universal Cable used with certain of CONMED Linvatec's powered handpieces – see Note 11.

During the third quarter of 2009, we recorded a charge of \$0.3 million in other expense related to the consolidation of the administrative offices of CONMED Endoscopic Technologies – see Note 11 and Note 16.

Fourth Quarter

During the fourth quarter of 2009, we recorded a charge of \$3.4 million related to the restructuring of certain of our operations; \$3.0 million of the charge is recorded in cost of goods sold and \$0.4 million is recorded in other expense – see Note 11 and Note 16.

During the fourth quarter of 2009, we recorded a charge of \$4.6 million related to the consolidation of the administrative offices and operations of CONMED Endoscopic Technologies; \$0.8 million of the charge is recorded in cost of goods sold and \$3.8 million is recorded in other expense— see Note 11 and Note 16.

2010

First Quarter

During the first quarter of 2010, we incurred \$0.6 million in costs associated with the moving of additional product lines to our manufacturing facility in Chihuahua, Mexico. These costs were charged to cost of goods sold – see Note 16.

Second Quarter

During the second quarter of 2010, we incurred \$1.0 million in costs associated with the moving of additional product lines to our manufacturing facility in Chihuahua, Mexico. These costs were charged to cost of goods sold – see Note 16.

During the second quarter of 2010, we recorded a charge of \$1.0 million in other expense related to the consolidation of administrative functions in our CONMED Linvatec division – see Note 11 and Note 16.

During the second quarter of 2010, we repurchased and retired \$3.0 million of our 2.50% convertible senior subordinated notes (the "Notes") for \$2.9 million and recorded a loss on the early extinguishment of debt of \$0.1 million - see Note 5.

Third Quarter

During the third quarter of 2010, we incurred \$0.3 million in costs associated with the moving of additional product lines to our manufacturing facility in Chihuahua, Mexico. These costs were charged to cost of goods sold – see Note 16.

During the third quarter of 2010, we recorded a charge of \$0.3 million in other expense related to the consolidation of administrative functions in our CONMED Linvatec division – see Note 11 and Note 16.

Fourth Quarter

During the fourth quarter of 2010, we incurred \$0.6 million in costs associated with the moving of additional product lines to our manufacturing facility in Chihuahua, Mexico. These costs were charged to cost of goods sold – see Note 16.

During the fourth quarter of 2010, we incurred \$2.5 million in costs associated with the termination of a product offering in our CONMED Linvatec division. These costs were charged to cost of goods sold – see Note 16.

During the fourth quarter of 2010, we recorded a charge of \$0.2 million in other expense related to the consolidation of administrative functions in our CONMED Linvatec division – see Note 11 and Note 16.

During the fourth quarter of 2010, we recorded a charge of \$0.7 million in other expense related to a lease impairment in our CONMED Endoscopic Technologies division – see Note 11 and Note 16.

Board of Directors



1. Eugene R. Corasanti is Vice Chairman of the Company and Chairman of the Board of Directors. Mr. E. 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. E. Corasanti was an independent public accountant. Mr. E. 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. J. Corasanti has been a Director of the Company since May 1994. Mr. J. Corasanti is also on the Board of Directors of II-VI, Inc. (NASDAQ: IIVI) and is a member of the audit committee. 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, Los Angeles, California. Mr. J. Corasanti is admitted to the State Bar of New York and California. Mr. J. 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. Mr. Daniels is the Chairman of the Audit Committee, and also serves on the Compensation Committee.

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 also on the Board of Directors of the Bank of Utica. 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. Ms. Golden serves on the Audit Committee.

5. Stephen M. Mandia has served as a Director of the Company since July 2002. Mr. Mandia has served as Chairman of the Board of Directors of Sovena USA, formerly East Coast Olive Oil Corp., now a subsidiary of Sovena Group since January 1, 2010 and currently serves as the Chairman of the Board of Eva Gourmet. He previously served as Chief Executive Officer of Sovena USA from 1991 to December 31, 2009. Mr. Mandia holds a B.S. degree from Bentley College, having also undertaken undergraduate studies at Richmond College in London. Mr. Mandia is the Chairman of the Corporate Governance and Nominating Committee, and also serves on the Compensation Committee.

6. 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. Dr. Schwartz is the Chairman of the Compensation Committee, and also serves on the Corporate Governance and Nominating Committee.

7. Mark E. Tryniski has served as a Director of the Company since May 2007 and the Lead Independent Director since May 2009. 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. Mr. Tryniski also serves on the Board of Directors of the Independent Bankers Association of New York State. Mr. Tryniski holds a B.S. degree from the State University of New York at Oswego. Mr. Tryniski serves on the Audit Committee as well as the Corporate Governance and Nominating Committee.

Corporate Management Team



William W. Abraham 7
Vice President – Business Development

Heather L. Cohen, Esq. 1
Vice President – Corporate Human Resources,
Deputy General Counsel and Secretary



Joseph J. Corasanti, Esq. 4
President and CEO

Daniel S. Jonas, Esq. 2
General Counsel and Vice President – Legal Affairs





Gregory R. Jones 6

Vice President – Corporate Quality Assurance and Regulatory Affairs

Luke A. Pomilio 5

Vice President – Controller and Corporate General Manager



Robert D. Shallish, Jr. 3

Vice President – Finance and Chief Financial Officer

Mark D. Snyder 8

Vice President – Worldwide Operations and Supply Chain



Corporate Officers

Joseph J. Corasanti, Esq.
President and CEO

William W. Abraham
Vice President – Business Development

Heather L. Cohen, Esq.
Vice President – Corporate Human Resources,
Deputy General Counsel and Secretary

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

Gregory R. Jones
Vice President – Corporate Quality Assurance
and Regulatory Affairs

Luke A. Pomilio
Vice President – Controller
and Corporate General Manager

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

Mark D. Snyder
Vice President – Worldwide Operations
and Supply Chain

Senior Officers

Joseph G. Darling
President – CONMED Linvatec

David R. Murray
President – CONMED Electrosurgery

Mark R. Donovan
Vice President – CONMED Endoscopic Technologies
and Global Corporate Marketing

Alexander R. Jones
Vice President – Corporate Sales

John J. Stotts
Vice President – CONMED Patient Care

Frank R. Williams
Vice President – CONMED EndoSurgery

Terence M. Bergé
Treasurer and Assistant Corporate Controller

Shareholder Information

Interested shareholders may obtain a copy of the Company's Annual Report 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
800-368-5948
www.rtco.com

Stock

CONMED Corporation's stock is traded on the NASDAQ Global Select Stock Market with the symbol: CNMD

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General Counsel
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Special Counsel
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Ethics Policy
Available at www.conmed.com

Operating Subsidiaries

CONMED Electrosurgery
CONMED Endoscopic Technologies
CONMED Italia SrL
CONMED Linvatec
CONMED Linvatec Australia
CONMED Linvatec Austria
CONMED Linvatec Belgium
CONMED Linvatec Biomaterials Oy
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.
Consolidated Medical Equipment Company
S.de r.L. de C.V. (Mexico)



