CONMED CORP
Form S-3/A
May 21, 2002

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 20, 2002

REGISTRATION NO. 333-87300

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CONMED CORPORATION
(Exact name of registrant as specified in its charter)

NEW YORK	16-0977505
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

525 FRENCH ROAD
UTICA, NEW YORK 13502-5994
(315) 797-8375
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

DANIEL S. JONAS
VICE PRESIDENT -- LEGAL AFFAIRS
AND GENERAL COUNSEL
525 FRENCH ROAD
UTICA, NEW YORK 13502-5994
(315) 797-8375
(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPIES TO:

ROBERT W. DOWNES	ALLAN G. SPERLING
SULLIVAN & CROMWELL	CLEARY, GOTTLIEB, STEEN & HAMILTON
125 BROAD STREET	ONE LIBERTY PLAZA
NEW YORK, NY 10004	NEW YORK, NY 10006
(212) 558-4000	(212) 225-2000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED MAY 20, 2002

PROSPECTUS

3,000,000 SHARES

[CONMED CORPORATION LOGO]

CONMED CORPORATION
COMMON STOCK
$ PER SHARE

We are selling 3,000,000 shares of our common stock in this offering. We have granted the underwriters an option to purchase up to 450,000 additional shares of our common stock to cover any over-allotments.

Our common stock is quoted on the Nasdaq National Market under the symbol "CNMD." The last reported sale price of our common stock on the Nasdaq National Market on May 17, 2002, was $25.65 per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER SHARE	TOTAL
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds to CONMED (before expenses)	$	$

The underwriters expect to deliver the shares to purchasers on or about May , 2002.

SALOMON SMITH BARNEY
UBS WARBURG
NEEDHAM & COMPANY, INC.
FIRST ALBANY CORPORATION

, 2002

[PICTURES OF CERTAIN PRODUCTS OF CONMED CORPORATION'S ARTHROSCOPY, POWERED SURGICAL INSTRUMENTS AND ELECTROSURGERY UNITS]

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT INFORMATION. WE ARE NOT MAKING AN OFFER OF THESE SECURITIES IN ANY STATE OR OTHER JURISDICTION WHERE THE OFFER IS NOT PERMITTED. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE AS OF ANY DATE OTHER THAN THE DATE ON THE FRONT OF THIS PROSPECTUS.

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SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this prospectus or incorporated by reference herein. An investment in the common stock involves significant risks. See "Risk Factors."

CONMED CORPORATION

CONMED Corporation is a medical technology company specializing in instruments, implants and video equipment for arthroscopic sports medicine, and powered surgical instruments, such as drills and saws, for orthopedic, ENT, neuro-surgery and other surgical specialties. We are also a leading developer, manufacturer and supplier of advanced surgical devices, including radio frequency, or RF, electrosurgery systems used routinely to cut and cauterize tissue in nearly all types of surgical procedures worldwide, and endoscopy products, such as trocars, clip appliers, scissors and surgical staplers. We also manufacture and sell a full line of ECG electrodes for heart monitoring and other patient care products.

The following table sets forth the percentage of net sales for each category of our products for 1999, 2000 and 2001:

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
Arthroscopy	38%	36%	36%
Powered surgical instruments	23	29	27
Electrosurgery	17	16	16
Patient Care	21	17	16
Endoscopy	1	2	5
Total	100%	100%	100%
Net sales (in thousands)	$376,226	$395,873	$428,722

Our products are used in a variety of clinical settings such as operating

rooms, surgery centers, physicians' offices and critical care areas of hospitals. We employ a razor/razor blade business model whereby we sell capital equipment and the associated single-use disposable products. During 2001, we derived approximately 75% of our revenues from single-use disposable products and the remainder from capital equipment. We believe the sale of disposable products provides a recurring revenue stream that helps insulate us from temporary market downturns.

We have used strategic business acquisitions to broaden our product offerings, to increase our market share in certain product lines and to realize economies of scale. Since 1997, we have completed six significant business acquisitions. The completed acquisitions, together with internal growth, have resulted in a compound annual growth rate in net sales of 32% between 1997 and 2001.

INDUSTRY

The growth in the markets for our products is primarily driven by:

- Favorable Demographics. The number of surgical procedures performed is increasing. This growth in surgical procedures reflects demographic trends, such as the aging of the population, and technological advancements, such as safer and less invasive surgical procedures. Sales of our surgical products represented over 85% of our total 2001 sales.

- Continued Pressure to Reduce Health Care Costs. In response to rising health care costs, managed care companies and other third-party payers have placed pressure on health care providers to reduce costs. In turn, health care providers are increasingly purchasing single-use disposable products, which reduce the costs associated with sterilizing surgical instruments and products following surgery.

- Increased Global Medical Spending. We believe that foreign markets offer growth opportunities for our products. We currently distribute our products through our own sales subsidiaries or through local dealers in over 100 foreign countries. International sales represented approximately 29% of total sales in 2001.

COMPETITIVE STRENGTHS

We believe that we have a top two or three market share position in each of our five key product areas and have established our position as a market leader by capitalizing on the following competitive strengths:

- Strong Brand Recognition. Our products are sold under leading brand names, including CONMED(R), Linvatec(R) and Hall Surgical(R). These brand names are well recognized by physicians for quality and service, and we believe that brand recognition helps drive demand for our products.

- Breadth of Product Offering. The breadth of our product lines in our key product areas enables us to meet a wide range of customer requirements and preferences. In three of our five key product areas, we are only one of two providers that offers a full line of products.

- Successful Integration of Acquisitions. Since 1997, we have completed six acquisitions, including the 1997 acquisition of Linvatec Corporation, which more than doubled our size. Our management team, which averages more than 15 years of experience in the health care industry, has demonstrated the ability to identify complementary acquisitions and to

integrate acquired companies into our operations.

- Extensive Marketing and Distribution Infrastructure. We market our products domestically through our sales force consisting of approximately 210 employee sales representatives and an additional 90 sales professionals employed by eight non-stocking sales agent groups, seven of which are exclusive. Additionally, we have an international presence through sales subsidiaries and branches located in key international markets. The size and coverage of our distribution infrastructure assists in driving our sales.

- Vertically Integrated Manufacturing. We manufacture most of our products and components. Our vertically integrated manufacturing process has allowed us to provide quality products, to react quickly to changes in demand and to generate manufacturing efficiencies.

- Research and Development Expertise. Our research and development effort is focused on introducing new products, enhancing existing products and developing new technologies. During the last two years, we have introduced more than 24 products and product enhancements, many of which were "first-to-market" products.

BUSINESS STRATEGY

Our business strategy is to continue to strengthen our position as a market leader in our key product areas. The elements of our strategy include:

- Introduce New Products and Product Enhancements. We will continue to pursue organic growth by developing new products and enhancing existing products to respond to customer needs and preferences.

- Pursue Strategic Acquisitions. We believe that strategic acquisitions represent a cost-effective means of broadening our product line. We have historically targeted companies with proven technologies and established brand names that provide potential sales, marketing and manufacturing synergies.

- Realize Manufacturing and Operating Efficiencies. We will continue to review opportunities for consolidating product lines and streamlining production. We believe our vertically integrated manufacturing processes can produce further opportunities to reduce overhead and to increase operating efficiencies and capacity utilization.

- Maintain Strong International Sales Growth. We intend to maintain our international sales growth and increase our penetration into international markets by utilizing our relationships with foreign surgeons, hospitals and third-party payers, as well as foreign distributors.

RECENT DEVELOPMENT

PURCHASE AND CANCELLATION OF WARRANT ISSUED TO BRISTOL-MYERS SQUIBB

In 1997, in connection with the acquisition of Linvatec, we issued to Bristol-Myers Squibb Company a warrant that is exercisable in whole or in part for up to 1,500,000 shares of our common stock at a price of $22.82 per share. On May 3, 2002, we purchased the warrant for $2 million in cash and cancelled it.

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THE OFFERING

Common stock offered by us....	3,000,000 shares
Common stock outstanding after this offering.....	28,549,358 shares
Use of proceeds.....	We will use the estimated net proceeds of approximately $72.3 million that we will receive from this offering to repay outstanding debt under our credit agreement. See "Use of Proceeds."
Nasdaq National Market symbol.....	CNMD

The number of shares of common stock to be outstanding after this offering is based upon 25,549,358 shares of common stock that were outstanding on March 29, 2002 and does not include the following:

- 3,440,829 shares of common stock issuable based upon the exercise of outstanding stock options as of March 29, 2002 under our stock option plans, of which 1,719,932 shares were exercisable.

- 450,000 shares of common stock issuable in this offering to the underwriters pursuant to an over-allotment option.

Our executive offices are located at 525 French Road, Utica, New York 13502-5994. Our telephone number is (315) 797-8375 and our internet address is www.conmed.com. The information contained on our website is not part of this prospectus.

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SUMMARY FINANCIAL DATA

The information below sets forth summary financial data as of and for each of the three years in the period ended December 31, 2001 and the three months ended March 31, 2001 and 2002. The data for the three years in the period ended December 31, 2001 and as of December 31, 2000 and 2001 has been derived from and should be read in conjunction with our consolidated financial statements, including the notes thereto, included in this prospectus beginning on page F-1, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18. The information as of December 31, 1999 has been derived from our audited financial statements not incorporated by reference or included herein. The summary financial data for the three months ended March 31, 2001 and 2002 are unaudited but, in the opinion of management, reflect all adjustments (comprising only normal recurring accruals) necessary for a fair presentation of our consolidated operating results and financial position for such interim periods. Results for interim periods are not necessarily indicative of results for the full year or for any other period. We have never paid any cash dividends.

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1999	2000	2001	2001	2002
	(IN THOUSANDS, EXCEPT PER SHARE AND SHARE DATA)			(UNAUDITED)	
STATEMENT OF INCOME DATA(1):					
Net sales	$376,226	$395,873	$428,722	$105,909	$113,205
Cost of sales(2)	178,480	188,223	204,374	49,674	54,104
Selling and administrative expense(3)(4)	110,842	128,316	140,560	34,829	34,468
Research and development expense	12,108	14,870	14,830	3,696	3,824
Income from operations	74,796	64,464	68,958	17,710	20,809
Interest expense, net	32,360	34,286	30,824	8,331	6,628
Income before income taxes and extraordinary item	42,436	30,178	38,134	9,379	14,181
Provision for income taxes	15,277	10,864	13,728	3,376	5,105
Net income	$ 27,159	$ 19,314	$ 24,406	$ 6,003	$ 9,076
EARNINGS PER SHARE:					
Basic	$ 1.19	$ 0.84	$ 1.02	$ 0.26	$ 0.36
Diluted	$ 1.17	$ 0.83	$ 1.00	$ 0.26	$ 0.35
WEIGHTED AVERAGE NUMBER OF COMMON SHARES USED IN CALCULATING:					
Basic earnings per share	22,862	22,967	24,045	23,057	25,397
Diluted earnings per share	23,145	23,271	24,401	23,307	25,969
OTHER FINANCIAL DATA:					
Depreciation and amortization	$ 26,291	$ 29,487	$ 30,148	$ 7,566	$ 5,403
Capital expenditures	9,352	14,050	14,443	3,867	3,208

	AS OF DECEMBER 31,			AS OF MARCH 31,
	1999	2000	2001	2002
	(IN THOUSANDS)			(UNAUDITED)
BALANCE SHEET DATA:				
Cash and cash equivalents	$ 3,747	$ 3,470	$ 1,402	$ 2,634
Working capital	109,526	113,755	44,712	47,434
Total assets	662,161	679,571	701,608	706,950
Long-term debt (including current portion)	394,669	378,748	335,929	325,991
Total shareholders' equity	211,261	230,603	283,634	295,211

(footnotes on following page)

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(1) Includes, based on the purchase method of accounting, the results of (i) the powered instrument product line acquired from 3M Company, from August 1999; and (ii) the minimally invasive surgical product lines acquired from Imagyn Medical Technologies, Inc. in November 2000 and July 2001, in each such case from the date of acquisition.

(2) Includes for 1999, $1,600,000 of incremental expense related to the excess of the fair value at the acquisition date over the cost to produce inventory related to the powered instrument product line acquired from 3M; and includes for 2001, $1,567,000 of transition expenses related to the July 2001 acquisition from Imagyn.

(3) Included in selling and administrative expense for 1999 is a $1,256,000 benefit related to a previously recorded litigation accrual which was settled on favorable terms. Included in selling and administrative expense for 2000 is a severance charge of $1,509,000 related to the restructuring of our arthroscopy sales force.

(4) Effective January 1, 2002, the provisions of SFAS 142 were adopted relative to the cessation of amortization for goodwill and certain intangibles. Had we accounted for goodwill and certain intangibles in accordance with SFAS 142 for all periods presented, net income would have been $32,227,000 in 1999, $24,969,000 in 2000, $30,061,000 in 2001 and $7,416,000 in the three months ended March 31, 2001.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following factors, in addition to the other information contained in this prospectus, in deciding whether to invest in our common stock. This prospectus and documents incorporated by reference herein contain forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. See "Cautionary Statement Concerning Forward-Looking Statements" below. Factors that might cause such differences include those discussed below.

OUR FINANCIAL PERFORMANCE IS SUBJECT TO THE RISK OF BUSINESS ACQUISITIONS, INCLUDING THE EFFECTS OF INCREASED BORROWING AND THE INTEGRATION OF BUSINESSES

A key element of our business strategy has been to expand through acquisitions and we may seek to pursue additional acquisitions in the future. Our success is dependent in part upon our ability to integrate acquired companies or product lines into our existing operations. We may not have sufficient management and other resources to accomplish the integration of our past and future acquisitions, and implementing our acquisition strategy may strain our relationship with customers, suppliers, distributors, manufacturing personnel or others. There can be no assurance that we will be able to identify and make acquisitions on acceptable terms or that we will be able to obtain financing for such acquisitions on acceptable terms. In addition, while we are generally entitled to customary indemnification from sellers of businesses for any difficulties that may have arisen prior to our acquisition of each business, acquisitions may involve exposure to unknown liabilities and the amount and time for claiming under these indemnification provisions is often limited. As a result, our financial performance is now and will continue to be subject to various risks associated with the acquisition of businesses, including the financial effects associated with any increased borrowing required to fund such

acquisitions or with the integration of such businesses.

FAILURE TO COMPLY WITH REGULATORY REQUIREMENTS COULD RESULT IN RECALLS, FINES OR MATERIALLY ADVERSE IMPLICATIONS FOR OUR BUSINESS

All of our products are classified as medical devices subject to regulation by the Food and Drug Administration. As a manufacturer of medical devices, our manufacturing processes and facilities are subject to on-site inspection and continuing review by the FDA for compliance with the Quality System Regulations. Manufacturing and sales of our products outside the United States are also subject to foreign regulatory requirements that vary from country to country. The time required to obtain approvals from foreign countries may be longer or shorter than that required for FDA approval, and requirements for foreign approvals may differ from FDA requirements. Failure to comply with applicable domestic and/or foreign requirements can result in:

- fines or other enforcement actions;

- recall or seizure of products;

- total or partial suspension of production;

- withdrawal of existing product approvals or clearances;

- refusal to approve or clear new applications or notices;

- increased quality control costs; or

- criminal prosecution.

The failure to comply with Quality System Regulations and applicable foreign regulations could have a material adverse effect on our business, financial condition or results of operations.

IF WE ARE NOT ABLE TO MANUFACTURE PRODUCTS IN COMPLIANCE WITH REGULATORY STANDARDS, WE MAY DECIDE TO CEASE MANUFACTURE OF THOSE PRODUCTS AND MAY BE SUBJECT TO PRODUCT RECALL

In addition to the Quality System Regulations, many of our products are also subject to industry-set standards. We may not be able to comply with these regulations and standards due to deficiencies in component parts or our manufacturing processes. If we are not able to comply with the Quality System Regulations or industry-set standards, we may not be able to fill customer orders and we may decide to cease production of non-compliant products. Failure to produce products could affect our profit margins and could lead to loss of customers.

Our products are subject to product recall and product recalls have been made in the past. Although no recall has had a material adverse effect on our business, financial condition or results of operations, we cannot assure you that regulatory issues will not have a material adverse effect in the future or that product recall will not harm our reputation and our relationships with our customers.

THE HIGHLY COMPETITIVE MARKET FOR OUR PRODUCTS MAY CREATE ADVERSE PRICING PRESSURES

The market for our products is highly competitive and our customers have numerous alternatives of supply. Many of our competitors offer a range of

products in areas other than those in which we compete, which may make such competitors more attractive to surgeons, hospitals, group purchasing organizations, or GPOs, and others. In addition, many of our competitors are larger and have greater financial resources than we do and offer a range of products broader than our products. Competitive pricing pressures or the introduction of new products by our competitors could have an adverse effect on our revenues. Because our customers are not bound by long-term supply arrangements with us, we may not be able to shift our production to other products following a loss of customers to our competitors, leading to an accompanying adverse effect on our profitability. See "Business--Competition" for a further discussion of these competitive forces.

Factors that could lead our customers to choose products offered by our competitors include:

- changes in surgeon preferences;
- increases or decreases in health care spending related to medical devices;
- our inability to furnish products to them, such as a result of product recall or back-order;
- the introduction by competitors of new products or new features to existing products;
- the introduction by competitors of alternative surgical technology; and
- advances in surgical procedures and discoveries or developments in the health care industry.

COST REDUCTION EFFORTS IN THE HEALTH CARE INDUSTRY COULD PUT PRESSURE ON OUR PRICES AND MARGINS

In recent years, the health care industry has undergone significant change driven by various efforts to reduce costs, including efforts at national health care reform, trends toward managed care, cuts in Medicare, consolidation of health care distribution companies, and collective purchasing arrangements by GPOs and integrated health networks, or IHNs. Demand and prices for our products may be adversely affected by these trends.

WE MAY NOT BE ABLE TO KEEP PACE WITH TECHNOLOGICAL CHANGE OR TO SUCCESSFULLY DEVELOP NEW PRODUCTS WHICH COULD CAUSE US TO LOSE BUSINESS TO COMPETITORS

The market for our products is characterized by rapidly changing technology. Our future financial performance will in part be dependent on our ability to develop and manufacture new products on a cost-effective basis, to introduce them to the market on a timely basis and to have them accepted by surgeons.

We may not be able to keep pace with technological change or to develop viable new products. Factors which could cause delay in releasing new products or even cancellation of our plans to produce and market these new products include:

- research and development delays;
- delays in securing regulatory approvals; or

- changes in the competitive landscape, including the emergence of alternative products or solutions which reduce or eliminate the markets for pending products.

OUR NEW PRODUCTS MAY FAIL TO ACHIEVE EXPECTED LEVELS OF MARKET ACCEPTANCE

Any new products we launch may fail to achieve market acceptance. The degree of market acceptance of any of our products will depend on a number of factors, including:

- our ability to develop and introduce new products and product enhancements in the time frames we currently estimate;

- our ability to successfully implement new technologies;

- the market's readiness to accept new products, such as our PowerPro(R) Battery System;

- having adequate financial and technological resources for future product development and promotion;

- the efficacy of our products; and

- the prices of our products compared to the prices of our competitors' products.

If our new products do not achieve market acceptance, we may be unable to recoup our investments and may lose business to competitors.

In addition, some of the companies with which we now compete or may compete in the future have or may have more extensive research, marketing and manufacturing capabilities and significantly greater technical and personnel resources than we do, and may be better positioned to continue to improve their technology in order to compete in an evolving industry. See "Business--Competition" for a further discussion of these competitive forces.

OUR CREDIT AGREEMENT CONTAINS COVENANTS THAT MAY LIMIT OUR FLEXIBILITY OR PREVENT US FROM TAKING ACTIONS TO RESPOND TO CHANGES IN OUR BUSINESS OR THE COMPETITIVE ENVIRONMENT

Our credit agreement contains, and future credit facilities are expected to contain, certain restrictive covenants which will affect, and in many respects significantly limit or prohibit, among other things, our ability to:

- incur indebtedness;

- make prepayments of certain indebtedness;

- make investments;

- engage in transactions with affiliates;

- pay dividends;

- sell assets; and

- pursue acquisitions.

These covenants may prevent us from pursuing acquisitions, significantly limit our operating and financial flexibility, and limit our ability to respond to changes in our business or competitive activities. Our ability to comply with such provisions may be affected by events beyond our control. In the event of

any default under our credit agreement, the credit agreement lenders could elect to declare all amounts borrowed under our credit agreement, together with accrued interest, to be due and payable. If we were unable to repay such borrowings, the credit agreement lenders could proceed against the collateral securing the credit agreement, which consists of substantially all of our property and assets, except for our accounts receivable and related rights which are sold in connection with the accounts receivable sales agreement. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" for a discussion of the accounts receivable sales agreement.

OUR SUBSTANTIAL LEVERAGE AND DEBT SERVICE REQUIREMENTS MAY FORCE US TO ADOPT ALTERNATIVE BUSINESS STRATEGIES

We have indebtedness that is substantial in relation to our shareholders' equity, as well as interest and debt service requirements that are significant compared to our cash flow from operations. On a pro forma basis, after giving effect to the application of the net proceeds of this offering and assuming net proceeds from this offering of $72.3 million, as of March 31, 2002, we would have had $253.7 million of debt outstanding, representing 41% of total capitalization. This amount includes the current portion of our long-term debt, but does not include the $40 million of receivables sold to a conduit purchaser under the accounts receivable sales agreement described below under "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources," the proceeds of which were used to repay indebtedness.

The degree to which we are leveraged could have important consequences to investors, including but not limited to the following:

- a substantial portion of our cash flow from operations must be dedicated to debt service and will not be available for operations, capital expenditures, acquisitions, dividends and other purposes;

- our ability to renegotiate our revolving credit facility and obtain additional financing in the future for working capital, capital expenditures, acquisitions or general corporate purposes may be limited or impaired, or may be at higher interest rates;

- we may be at a competitive disadvantage when compared to competitors that are less leveraged;

- we may be hindered in our ability to adjust rapidly to market conditions;

- our degree of leverage could make us more vulnerable in the event of a downturn in general economic conditions or other adverse circumstances applicable to us; and

- our interest expense could increase if interest rates in general increase because some of our borrowings, including our borrowings under our credit agreement, are and will continue to be at variable rates of interest.

WE MAY NOT BE ABLE TO GENERATE SUFFICIENT CASH TO SERVICE OUR INDEBTEDNESS, WHICH COULD REQUIRE US TO REDUCE OUR EXPENDITURES, SELL ASSETS, RESTRUCTURE OUR INDEBTEDNESS OR SEEK ADDITIONAL EQUITY CAPITAL

Our ability to satisfy our obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We may not have sufficient cash flow available to enable us to meet our obligations. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as foregoing acquisitions, reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking additional equity capital. We can not assure you that any of these strategies could be implemented on terms acceptable to us, if at all. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" for a discussion of our indebtedness and its implications.

WE MAY BE UNABLE TO CONTINUE TO SELL OUR ACCOUNTS RECEIVABLE, WHICH COULD REQUIRE US TO SEEK ALTERNATIVE SOURCES OF FINANCING

Under our receivables agreement, there are certain statistical ratios which must be maintained relating to the pool of receivables in order for us to continue selling to the conduit purchaser and the conduit purchaser can cease its purchase of our receivables. These ratios relate to sales dilution and losses on accounts receivable. If new accounts receivable arising in the normal course of business do not qualify for sale or the conduit purchaser otherwise ceases its purchase of our receivables, we would need to access alternative sources of working capital, which could be more expensive or difficult to obtain.

WE MAY BE UNABLE TO SUCCESSFULLY RENEGOTIATE OUR CREDIT FACILITY ON TERMS WE DEEM ACCEPTABLE

Our $100 million revolving credit facility terminates on December 31, 2002. We are currently negotiating with our bank group to extend the revolving credit facility, or in the alternative, to renegotiate our entire senior credit facility. We may be unable to obtain credit arrangements on terms we deem acceptable. If we are unable to successfully negotiate a new senior credit arrangement that provides sufficient capital for our business, we could be forced to sell assets, alter our business strategy or obtain alternative sources of financing.

THE LOSS OR INVALIDITY OF OUR PATENTS MAY REDUCE OUR COMPETITIVE ADVANTAGE

Much of the technology used in the markets in which we compete is covered by patents. We have numerous U.S. patents and corresponding foreign patents on products expiring at various dates from 2002 through 2019 and have additional patent applications pending. See "Business--Research and Development Activities" for a further description of our patents. The loss of our patents could reduce the value of the related products and any related competitive advantage. Competitors may also be able to design around our patents and to compete effectively with our products. Also, our competitors may allege that our products infringe their patents, leading to voluntary or involuntary loss of sales from those products. In addition, the cost to prosecute infringements of our patents or the cost to defend our products against patent infringement actions by others could be substantial. We cannot assure you that:

- pending patent applications will result in issued patents;
- patents issued to or licensed by us will not be challenged by competitors;
- our patents will be found to be valid or sufficiently broad to protect

our technology or provide us with a competitive advantage; and

- we will be successful in defending against pending or future patent infringement claims asserted against our products.

ORDERING PATTERNS OF OUR CUSTOMERS MAY CHANGE RESULTING IN REDUCTIONS IN SALES

Our hospital and surgery center customers purchase our products in quantities sufficient to meet their anticipated demand. Likewise, our health care distributor customers purchase our products for ultimate resale to health care providers in quantities sufficient to meet the anticipated requirements of the distributors' customers. Should inventories of our products owned by our hospital, surgery center and distributor customers grow to levels higher than their requirements, our customers may reduce the ordering of products from us. This could cause a reduction in our sales in a financial accounting period.

OUR SIGNIFICANT INTERNATIONAL OPERATIONS SUBJECT US TO RISKS ASSOCIATED WITH OPERATING IN FOREIGN COUNTRIES

A portion of our operations are conducted outside the United States. About 29% of our 2001 net sales constituted foreign sales. As a result of our international operations, we are subject to risks associated with operating in foreign countries, including:

- devaluations and fluctuations in currency exchange rates;

- imposition of limitations on conversions of foreign currencies into dollars or remittance of dividends and other payments by foreign subsidiaries;

- imposition or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries;

- trade barriers;

- political risks, including political instability;

- reliance on third parties to distribute our products;

- hyperinflation in certain foreign countries; and

- imposition or increase of investment and other restrictions by foreign governments.

We cannot assure you that such risks will not have a material adverse effect on our business and results of operations.

WE CAN BE SUED FOR PRODUCING DEFECTIVE PRODUCTS AND OUR INSURANCE COVERAGE MAY BE INSUFFICIENT TO COVER THE NATURE AND AMOUNT OF ANY PRODUCT LIABILITY CLAIMS

The nature of our products as medical devices and today's litigious environment should be regarded as potential risks that could significantly and adversely affect our financial condition and results of operations. The insurance we maintain to protect against claims associated with the use of our products may not adequately cover the amount or nature of any claim asserted against us, and we are exposed to the risk that our claims may be excluded and that our insurers may become insolvent. See "Item 3: Legal Proceedings" in our Form 10-K for a further discussion of the risk of product liability actions and our insurance coverage.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS MADE IN THIS PROSPECTUS

In this prospectus, we make forward-looking statements about our financial condition, results of operations and business. Forward-looking statements are statements made by us concerning events that may or may not occur in the future. These statements may be made directly in this document or may be "incorporated by reference" from other documents. You can find many of these statements by looking for words like "believes," "expects," "anticipates," "estimates" or similar expressions.

FORWARD-LOOKING STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE

Forward-looking statements involve known and unknown risks, uncertainties and other factors, including those that may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include those identified under "Risk Factors" above and those set forth elsewhere and incorporated by reference in this prospectus, among others, including the following:

- general economic and business conditions;
- changes in customer preferences;
- changes in technology;
- the introduction of new products;
- changes in business strategy;
- the possibility that United States or foreign regulatory and/or administrative agencies might initiate enforcement actions against us or our distributors;
- quality of our management and business abilities and the judgment of our personnel; and
- the availability, terms and deployment of capital.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" below for a further discussion of these factors. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events.

PRICE RANGE OF OUR COMMON STOCK

Our common stock, par value $.01 per share, is traded on the Nasdaq National Market under the symbol "CNMD." At March 29, 2002, there were 1,213 registered holders of our common stock and approximately 6,100 accounts held in

"street name."

The following table shows certain high-low last sales prices for our common stock, as reported by the Nasdaq National Market. These sales prices have been adjusted for a three-for-two split of our common stock effected in the form of a common stock dividend and paid on September 7, 2001 to shareholders of record on August 21, 2001.

	COMMON STOCK PRICE	
YEAR ENDED DECEMBER 31, 2000:	HIGH	LOW
First Quarter	$20.50	$15.04
Second Quarter	18.37	15.75
Third Quarter	17.41	8.08
Fourth Quarter	12.04	8.62

YEAR ENDED DECEMBER 31, 2001:	HIGH	LOW
First Quarter	$15.92	$10.83
Second Quarter	18.00	13.08
Third Quarter	21.21	15.73
Fourth Quarter	21.01	16.53

YEAR ENDED DECEMBER 31, 2002:	HIGH	LOW
First Quarter	$25.00	$19.29
Second Quarter (through May 17, 2002)	$27.00	$24.11

On May 17, 2002, the last sale price for the common stock on the Nasdaq National Market was $25.65.

DIVIDEND POLICY

We have never paid cash dividends on our common stock. Our board of directors presently intends to retain future earnings to finance the development of our business and does not intend to declare cash dividends. Should this policy change, the declaration of dividends will be determined by our board in light of conditions then existing, including our financial requirements and condition and the limitation on the declaration and payment of cash dividends contained in debt agreements.

USE OF PROCEEDS

The net proceeds from this offering, after payment of our fees and expenses

incurred in connection with this offering, are estimated to be approximately $72.3 million (assuming an offering price of $25.65 per share and assuming the underwriters' over-allotment option is not exercised). We will use the net proceeds from this offering to repay outstanding debt under our credit agreement.

The borrowings under our credit agreement, of which $172.8 million was outstanding as of March 31, 2002, include a term portion that bears interest at a weighted average of LIBOR plus 2.13% (4.20% at March 31, 2002) and a revolving portion that bears interest at LIBOR plus 1.50% (3.70% at March 31, 2002).

CAPITALIZATION

The following table sets forth our consolidated capitalization, which includes the current portion of our long-term debt, as of March 31, 2002, and as adjusted to give pro forma effect to our sale of 3,000,000 shares of our common stock offered hereby at an assumed offering price of $25.65 per share and the application of the net proceeds therefrom as described under "Use of Proceeds":

	MARCH 31, 2002	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS)	
DEBT:		
Current portion of long-term debt(1)	$ 73,914	$ 73,914
Long-term debt (less current portion)(1)	252,077	179,751
SHAREHOLDERS' EQUITY:		
Preferred stock, par value $.01 per share; authorized 500,000 shares; none outstanding	--	--
Common stock, par value $.01 per share; authorized 100,000,000 shares; outstanding 25,549,358 shares actual and 28,549,358 shares as adjusted	255	285
Paid-in capital	162,740	235,036
Retained earnings	137,316	137,316
Accumulated and other comprehensive loss	(4,681)	(4,681)
Less 37,500 shares of common stock in treasury, at cost	(419)	(419)
Total shareholders' equity	295,211	367,537
Total capitalization	$621,202	$621,202

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(1) Because the revolving commitment under our credit agreement terminates on December 31, 2002, the entire amount borrowed under our revolver is classified as short term.

SELECTED FINANCIAL DATA

The information below sets forth selected financial data as of and for each of the five years in the period ended December 31, 2001 and the three months ended March 31, 2001 and 2002. The data for the three years in the period ended December 31, 2001 and as of December 31, 2000 and 2001 has been derived from and should be read in conjunction with our consolidated financial statements, including the notes thereto, included in this prospectus beginning on page F-1, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18. The information for the years ended December 31, 1997 and 1998 and as of December 31, 1997, 1998 and 1999 has been derived from our audited financial statements not incorporated by reference or included herein. The selected financial data for the three months ended March 31, 2001 and 2002 are unaudited but, in the opinion of management, reflect all adjustments (comprising only normal recurring accruals) necessary for a fair presentation of our consolidated operating results and financial position for such interim periods. Results for interim periods are not necessarily indicative of results for the full year or for any other period. We have never paid any cash dividends.

	YEAR ENDED DECEMBER 31,					THREE
	1997	1998	1999	2000	2001	200
	(IN THOUSANDS, EXCEPT PER SHARE AND SHARE DATA)					(
STATEMENTS OF INCOME (LOSS) DATA(1):						
Net sales	$139,632	$339,270	$376,226	$395,873	$428,722	$105,
Cost of sales(2)	74,220	169,599	178,480	188,223	204,374	49,
Selling and administrative expense(3)(4)	36,661	96,475	110,842	128,316	140,560	34,
Research and development expense	3,037	12,029	12,108	14,870	14,830	3,
Unusual items(3)	37,242	--	--	--	--	
Income (loss) from operations	(11,528)	61,167	74,796	64,464	68,958	17,
Interest income (expense), net	823	(30,891)	(32,360)	(34,286)	(30,824)	(8,
Income (loss) before income taxes and extraordinary item	(10,705)	30,276	42,436	30,178	38,134	9,
Provision (benefit) for income taxes	(3,640)	10,899	15,277	10,864	13,728	3,
Income (loss) before extraordinary item	(7,065)	19,377	27,159	19,314	24,406	6,
Extraordinary item, net of income taxes(5)	--	(1,569)	--	--	--	
Net income (loss)	$ (7,065)	$ 17,808	$ 27,159	$ 19,314	$ 24,406	$ 6,
EARNINGS (LOSS) PER SHARE BEFORE EXTRAORDINARY ITEM:						
Basic	$ (0.31)	$ 0.86	$ 1.19	$ 0.84	$ 1.02	$ 0
Diluted	$ (0.31)	$ 0.84	$ 1.17	$ 0.83	$ 1.00	$ 0
EARNINGS (LOSS) PER SHARE:						
Basic	$ (0.31)	$ 0.79	$ 1.19	$ 0.84	$ 1.02	$ 0

Diluted	$ (0.31)	$ 0.77	$ 1.17	$ 0.83	$ 1.00	$ 0
WEIGHTED AVERAGE NUMBER OF COMMON SHARES IN CALCULATING:						
Basic earnings (loss) per share	22,496	22,628	22,862	22,967	24,045	23,
Diluted earnings (loss) per share	22,496	22,982	23,145	23,271	24,401	23,
OTHER FINANCIAL DATA:						
Depreciation and amortization	$ 6,954	$ 23,601	$ 26,291	$ 29,487	$ 30,148	$ 7,
Capital expenditures	8,178	12,924	9,352	14,050	14,443	3,

(footnotes on following page)

	AT DECEMBER 31,				AT
	1997	1998	1999	2000	2001
	(IN THOUSANDS)				(U
BALANCE SHEET DATA(6):					
Cash and cash equivalents	$13,452	$ 5,906	$ 3,747	$ 3,470	$ 1,4
Working capital	95,333	93,424	109,526	113,755	44,7
Total assets	561,637	628,784	662,161	679,571	701,6
Long-term debt (including current portion)	365,000	384,872	394,669	378,748	335,9
Total shareholders' equity	162,736	182,168	211,261	230,603	283,6

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(1) Includes, based on the purchase method of accounting, the results of (i) the surgical suction product line acquired from the Davol subsidiary of C.R. Bard, Inc., from July 1997; (ii) Linvatec Corporation acquired from Bristol-Myers Squibb Company, from December 1997; (iii) the arthroscopy product line acquired from 3M, from November 1998; (iv) the powered instrument product line acquired from 3M Company, from August 1999; and (v) the minimally invasive surgical product lines acquired from Imagyn Medical Technologies, Inc. in November 2000 and July 2001, in each such case from the date of acquisition.

(2) Includes for 1998, $3,000,000 of incremental expense related to the excess of the fair value at the acquisition date of Linvatec inventory over the cost to produce; includes for 1999, $1,600,000 of incremental expense related to the excess of the fair value at the acquisition date over the cost to produce inventory related to the powered instrument product line acquired from 3M; and includes for 2001, $1,567,000 of transition expenses related to the July 2001 acquisition from Imagyn.

(3) Included in unusual items for 1997 are a $34,000,000 non-cash acquisition charge for the write-off of all of the in-process research and development products (comprised of products in the development stage) acquired in the Linvatec acquisition, a $914,000 write-off of deferred financing fees resulting from refinancing our loan agreements in connection with the Linvatec acquisition, and a $2,328,000 charge for the closing of our Dayton, Ohio manufacturing facility. Included in selling and administrative expense for 1999 is a $1,256,000 benefit related to a previously recorded litigation accrual which was settled on favorable terms. Included in selling and

administrative expense for 2000 is a severance charge of $1,509,000 related to the restructuring of the Company's arthroscopy sales force.

(4) Effective January 1, 2002, the provisions of SFAS 142 were adopted relative to the cessation of amortization for goodwill and certain intangibles. Had we accounted for goodwill and certain intangibles in accordance with SFAS 142 for all periods presented, income (loss) before extraordinary item would have been $(5,502,000) in 1997, $24,011,000 in 1998, $32,227,000 in 1999, $24,969,000 in 2000, $30,061,000 in 2001 and $7,416,000 in the three months ended March 31,2001. Had we accounted for goodwill and certain intangibles in accordance with SFAS 142 for all periods presented, net income (loss) would have been $(5,502,000) in 1997, $24,011,000 in 1998, $32,227,000 in 1999, $24,969,000 in 2000, $30,061,000 in 2001 and $7,416,000 in the three months ended March 31, 2001.

(5) In March 1998, we recorded an extraordinary item of $1,569,000 net of income taxes related to the write-off of deferred financing fees.

(6) Linvatec is included in the Balance Sheet Data as of December 31, 1997, its date of acquisition, after a one-time non-cash acquisition charge of $34,000,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our "Selected Financial Data" and our consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

The accounting policies discussed below are considered by management to be critical to understanding our financial condition and results of operations.

ACCOUNTS RECEIVABLE SALE

On November 1, 2001, we entered into a five-year accounts receivable sales agreement pursuant to which we and certain of our subsidiaries sell on an ongoing basis certain accounts receivable to CONMED Receivables Corporation, or CRC, our wholly-owned special-purpose subsidiary. CRC may in turn sell up to an aggregate $50.0 million undivided percentage ownership interest in such receivables to a commercial paper conduit (the "conduit purchaser"). For receivables that have been sold, we retain collection and administrative responsibilities as agent for the conduit purchaser. As of March 31, 2002, the undivided percentage ownership interest in receivables sold by CRC to the conduit purchaser aggregated $40.0 million, which has been accounted for as a sale and reflected in the balance sheet as a reduction in accounts receivable. We used the initial $40.0 million in proceeds from the sale of accounts receivable in November 2001 to repay a portion of our term loans under our credit agreement described in Note 5 to our consolidated financial statements. Expenses associated with the sale of accounts receivable, including the conduit purchaser's financing cost of issuing commercial paper, were $0.3 million in the quarter ended March 31, 2002.

There are certain statistical ratios, primarily related to sales dilution and losses on accounts receivable, which must be calculated and maintained on the pool of receivables in order to continue selling to the conduit purchaser. We believe that additional accounts receivable arising in the normal course of business will be of sufficient quality and quantity to qualify for sale under the accounts receivable sales agreement. In the event that new accounts

receivable arising in the normal course of business do not qualify for sale, then collections on sold receivables will flow to the conduit purchaser rather than being used to fund new receivable purchases. If this were to occur, we would need to access an alternate source of working capital.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of purchase price over fair value of identifiable net assets of acquired businesses. Other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. Goodwill and other intangible assets have been amortized over periods ranging from 5 to 40 years. Because of our history of growth through acquisitions, goodwill and other intangible assets comprise a substantial portion (62.4% at March 31, 2002) of our total assets.

In June 2001, the Financial Accounting Standards Board approved Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets," or SFAS 142. We adopted SFAS 142 effective January 1, 2002. Under this standard, amortization of goodwill and certain intangible assets, including certain intangibles recorded as a result of past business combinations, is to be discontinued upon adoption of SFAS 142. In addition, in accordance with the transition provisions of SFAS 142, goodwill recorded as a result of our acquisition of certain product lines from Imagyn Medical Technologies, Inc. in July 2001 (the "second Imagyn acquisition") has not been amortized.

During the quarter ended March 31, 2002, we performed tests of goodwill and indefinite-lived intangible assets as of January 1, 2002. We tested for impairment using the two-step process prescribed in SFAS 142. The first step is a screen for potential impairment. The second step, which has been determined not to be necessary, measures the amount of any impairment. No impairment losses have been

recognized as a result of these tests. During the quarter ended March 31, 2002, net income increased by approximately $1.4 million or $.05 per share as a result of the adoption of SFAS 142.

DERIVATIVE FINANCIAL INSTRUMENTS

Effective January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," or SFAS 133. SFAS 133 requires that derivatives be recorded on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from the changes in the values of the derivatives are accounted for depending on whether the derivative qualifies for hedge accounting. Upon adoption of SFAS 133, we recorded a net-of-tax cumulative-effect-type loss adjustment of $1.0 million in accumulated other comprehensive income to recognize at fair value an interest rate swap which we have designated as a cash-flow hedge and which effectively converts $50.0 million of LIBOR-based floating rate debt under our credit agreement into fixed rate debt with a base interest rate of 7.01%. During the quarter ended March 31, 2002, gross holding gains were $0.1 million, before income taxes, while holding losses of $0.6 million, before income taxes, were reclassified and included in net income. Including the cumulative effect loss adjustment related to the adoption of SFAS 133, total gross holding losses during 2001 related to the interest rate swap aggregated $4.4 million before income taxes, of which $1.3 million, before income taxes, has been reclassified and included in net income.

REVENUE RECOGNITION

Revenue is recognized when title to the goods and risk of loss pass to our customers. Amounts billed to customers related to shipping and handling costs are included in net sales. We assess the risk of loss on accounts receivable and adjust the allowance for doubtful accounts based on this risk assessment. Historically, losses on accounts receivable have not been material. Management believes the allowance for doubtful accounts of $1.5 million at March 31, 2002 is adequate to provide for any potential losses from accounts receivable.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

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

	THREE MONTHS ENDED MARCH 31,	
	2001	2002
	(UNAUDITED)	
Net sales	100.0%	100.0%
Cost of sales	46.9	47.8
Gross margin	53.1	52.2
Selling and administrative expense	32.9	30.4
Research and development expense	3.5	3.4
Income from operations	16.7	18.4
Interest expense, net	7.8	5.9
Income before income taxes	8.9	12.5
Provision for income taxes	3.2	4.5
Net income	5.7%	8.0%

Sales for the quarter ended March 31, 2002 were $113.2 million, an increase of 6.9% compared to sales of $105.9 million in the same quarter a year ago. Excluding the effects of the second Imagyn acquisition, sales would have grown by approximately 1.0%. Fluctuations in foreign currency exchange

rates in the first quarter of 2002 as compared to the same period a year ago did not have a significant effect on sales.

- Sales in our orthopedic businesses decreased 1.6% to $69.7 million from $70.8 million in the comparable quarter last year.

- Arthroscopy sales, which represented approximately 59.3% of total first quarter of 2002 orthopedic revenues, grew 2.7% to $41.3 million from $40.2 million in the same period a year ago on strength in sales of disposable products and video equipment.

- Powered surgical instrument sales, which represented approximately 40.7% of orthopedic revenues, decreased 7.2% to $28.4 million in the first quarter of 2002 from $30.6 million in the same quarter last year, which was a record quarter for powered surgical instrument sales. In the last three quarters of 2001, powered surgical instrument sales averaged $27.9 million per quarter. We introduced our PowerPro(R) battery powered instrument product line in February 2002, replacing older versions of battery powered instruments. First shipments of this new product line occurred in March 2002.

- Patient care sales for the three months ended March 31, 2002 were $17.3 million, a 1.7% decline from $17.6 million in the same period a year ago, driven primarily by declines in sales of our surgical suction product lines as a result of significant competition and pricing pressures. Sales of ECG and other patient care products were largely stable in the first quarter of 2002 as compared with the same period a year ago.

- Electrosurgery sales for the three months ended March 31, 2002 were $16.8 million, an increase of 12.0% from $15.0 million in the first quarter of last year, driven by strong increases in disposable electrosurgical pencil and ground pad sales.

- Sales of endoscopy products increased to $9.4 million in the three months ended March 31, 2002 from $2.5 million in the same period a year ago, primarily as a result of the second Imagyn acquisition. Sales of the Imagyn product lines contributed approximately $6.5 million in sales in the quarter ended March 31, 2002. Excluding the impact of the second Imagyn acquisition, endoscopy sales increased approximately 16.0%. In July 2001, concurrent with the second Imagyn acquisition, we created a separate sales force focused on selling endoscopy products. Previously, endoscopy products were sold through the electrosurgery sales force. We believe the continued strong sales growth we have experienced in the endoscopy product lines was enhanced by the focus provided by a separate, dedicated sales force.

Cost of sales increased to $54.1 million in the first quarter of 2002 as compared to $49.7 million in the same quarter a year ago as a result of the increased sales described above, while gross margin percentage declined slightly to 52.2% in the first quarter of 2002 compared to 53.1% in the first quarter of 2001, primarily as a result of decreased sales of powered surgical instruments which carry higher gross margins than certain of our other product lines.

Selling and administrative expense decreased to $34.5 million in the first quarter of 2002 as compared to $34.8 million in the first quarter of 2001. As a percentage of sales, selling and administrative expense totaled 30.4% in the first quarter of 2002 compared to 32.9% in the first quarter of 2001. During the quarter ended March 31, 2002, selling and administrative expense decreased by approximately $2.2 million as a result of the adoption of SFAS 142. Excluding the impact of the adoption of SFAS 142, selling and administrative expense in the first quarter of 2002 would have been approximately $36.7 million or 32.4% as a percentage of sales, declining slightly when compared with the same period a year ago, as a result of the increase in sales.

Research and development expense increased to $3.8 million in the first quarter of 2002 as compared to $3.7 million in the first quarter of 2001. This increase represents continued research and development efforts primarily focused on new product development in the orthopedic product lines. As a percentage of

sales, research and development expense decreased to 3.4% in the first quarter

compared to 3.5% in the same quarter a year ago as a result of higher sales levels.

Interest expense in the first quarter of 2002 was $6.6 million compared to $8.3 million in the first quarter of 2001. The decrease in interest expense is a result of lower total borrowings during the first quarter as compared to the same period a year ago, as well as lower weighted average interest rates on the term loans and revolving credit facility under our credit agreement, which declined to 4.20% and 3.70% at March 31, 2002 as compared to 7.94% and 8.14% at March 31, 2001.

2001 COMPARED TO 2000

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

	YEAR ENDED DECEMBER 31,	
	2000	2001
Net sales	100.0%	100.0%
Cost of sales	47.5	47.7
Gross margin	52.5	52.3
Selling and administrative expense	32.4	32.8
Research and development expense	3.8	3.5
Income from operations	16.3	16.0
Interest expense, net	8.7	7.2
Income before income taxes	7.6	8.8
Provision for income taxes	2.7	3.1
Net income	4.9%	5.7%

Sales for 2001 were $428.7 million, an increase of 8.3% compared to sales of $395.9 million in 2000. Excluding our acquisition of certain product lines from Imagyn in November 2000 (the "Imagyn acquisition") and July 2001, and adjusting for constant foreign currency exchange rates, sales would have grown by approximately 5.2%.

- Sales in our orthopedic businesses grew 4.3% to $269.9 million in 2001 from $258.8 million from 2000.

- Arthroscopy sales, which represented approximately 57.7% of total 2001 orthopedic revenues, grew 7.2% in 2001 to $155.6 million from $145.1 million in 2000, on strength in sales of disposable products and video equipment.

- Powered surgical instrument sales, which represented approximately 42.3% of total 2001 orthopedic revenues, grew 1.0% to $114.3 million in 2001 from $113.7 million in 2000. We believe the weakness in sales in the powered surgical instrument product line was a result of our aging battery-powered product offering, which has since been replaced by our new PowerPro(R) battery-powered instrument product line, as we describe

above. Adjusted for constant foreign currency exchange rates, orthopedic sales growth in 2001 would have been approximately 5.5% compared with 2000, as the value of the Canadian dollar and certain European currencies weakened in comparison with the dollar.

- Patient care sales for 2001 were $69.1 million, a 1.3% increase from $68.2 million in 2000, as modest increases in sales of our ECG and other patient care product lines more than offset declines in sales of surgical suction product lines which occurred as a result of significant competition and pricing pressure.

- Electrosurgery sales for 2001 were $66.9 million, an increase of 7.0% from $62.5 million in 2000, driven by increases in electrosurgical pencil and other disposable product sales.

- Endoscopy sales for 2001 were $22.8 million, an increase of 256% from $6.4 million in 2000. Excluding the impact of the Imagyn acquisitions in November 2000 and July 2001, as described in Note 2 to our consolidated financial statements, the increase in endoscopy sales was approximately 13.0%.

Cost of sales increased to $204.4 million in 2001 compared to $188.2 million in 2000, primarily as a result of the increased sales volumes described above. As discussed in Notes 2 and 11 to our consolidated financial statements, during 2001, we incurred various nonrecurring charges in connection with the July 2001 Imagyn acquisition. These costs were primarily related to the transition in manufacturing of the Imagyn product lines from Imagyn's Richland, Michigan facility to our manufacturing plants in Utica, New York. Such costs totaled approximately $1.6 million and are included in cost of sales. Excluding the impact of these nonrecurring expenses, cost of sales for 2001 was $202.8 million. Gross margin percentage for 2001, excluding the Imagyn-related charges, was 52.7%, a slight improvement as a result of increased sales volumes, compared with 52.5% in 2000. Including the Imagyn-related charges, gross margin percentage for 2001 was 52.3%.

Selling and administrative expense increased to $140.6 million in 2001 as compared to $128.3 million in 2000. As a percentage of sales, selling and administrative expense totaled 32.8% in 2001 compared to 32.4% in 2000. Excluding a nonrecurring severance charge of $1.5 million recorded in 2000 related to the restructuring of our orthopedic direct sales force, as described in Note 11 to our consolidated financial statements, selling and administrative expense as a percentage of sales were 32.0% in 2000. This restructuring involved replacing our orthopedic direct sales force with non-stocking exclusive sales agent groups in certain geographic regions of the United States. This plan resulted in greater sales force coverage in the affected geographic regions. The increase in selling and administrative expense in 2001 as compared to 2000 is a result of higher commission and other costs in 2001 as compared to 2000 associated with the change to exclusive sales agent groups as well as increased spending on sales and marketing programs.

Research and development expense totaled $14.8 million in 2001, consistent with $14.9 million in 2000. As a percentage of sales, research and development expense decreased to 3.5% in 2001 compared to 3.8% in 2000, as a result of higher sales levels. Our research and development efforts are focused primarily on new product development in the orthopedic product lines.

Interest expense in 2001 was $30.8 million compared to $34.3 million in 2000. The decrease in interest expense is primarily a result of lower weighted average interest rates on the term loans and revolving credit facility under our

credit agreement, as described in Note 5 to our consolidated financial statements, which have declined, to 4.43% and 3.93% at December 31, 2001 as compared to 8.73% and 9.06% at December 31, 2000 resulting in decreased interest expense.

2000 COMPARED TO 1999

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

	YEAR ENDED DECEMBER 31,	
	1999	2000
Net sales	100.0%	100.0%
Cost of sales	47.4	47.5
Gross margin	52.6	52.5
Selling and administrative expense	29.5	32.4
Research and development expense	3.2	3.8
Income from operations	19.9	16.3
Interest expense, net	8.6	8.7
Income before income taxes	11.3	7.6
Provision for income taxes	4.1	2.7
Net income	7.2%	4.9%

Sales for 2000 were $395.9 million, an increase of 5.2% compared to sales of $376.2 million in 1999. Excluding our acquisitions of a powered instrument line from 3M in August 1999, certain product lines from Imagyn in November 2000 and adjusting for constant foreign currency exchange rates, sales would have grown by approximately 1.3%.

- Sales in our orthopedic businesses grew 12.0% to $258.8 million in 2000 from $231.0 million in 1999.

- Arthroscopy sales, which represented approximately 56.1% of total 2000 orthopedic revenues, grew 1.0% to $145.1 million in 2000 from $144.1 million in 1999, as increases in sales of video equipment more than offset slight declines in sales of disposable products.

- Powered surgical instrument sales, which represented approximately 43.9% of total 2000 orthopedic revenues, grew 30.8% to $113.7 million in 2000 from $86.9 million in 1999. Excluding the impact of the acquisition of the powered surgical instrument business from 3M in August 1999, as described in Note 2 to our consolidated financial statements, the increase in powered surgical instrument sales in 2000 compared to 1999 was approximately 12.1%. Adjusted for constant foreign currency exchange rates, orthopedic sales growth in 2000 would have been approximately 13.4% compared with 1999 as the value of the Canadian dollar and certain

European currencies weakened in comparison with the dollar.

- Patient care sales for 2000 were $68.2 million, a 12.6% decrease from $78.0 million in 1999, reflecting declines in sales of our ECG and surgical suction product lines as a result of increased competition and pricing pressure.

- Electrosurgery sales for 2000 were $62.5 million, consistent with the $62.4 million in 1999, reflecting generally flat generator and disposable product sales.

- Endoscopy sales for 2000 were $6.4 million, an increase of 33.3% from $4.8 million in 1999. Excluding the impact of the Imagyn acquisition in November 2000, as described in Note 2 to our consolidated financial statements, the increase in endoscopy sales in 2000 was approximately 20.8%.

Cost of sales increased to $188.2 million in 2000 compared to $178.5 million in 1999. Gross margin percentage for 2000 was 52.5%. In connection with the August 1999 acquisition of the powered surgical instrument business from 3M, as described in Note 2 to our consolidated financial statements, we increased the acquired value of inventory by $1.6 million; this inventory was sold in 1999 and served to increase cost of sales by $1.6 million. Excluding the impact of this nonrecurring purchase accounting

adjustment, cost of sales was $176.9 million in 1999 and gross margin percentage for 1999 was 52.9%. The slight decline in gross margin percentage in 2000 as compared to 1999 is primarily a result of the negative impact of foreign currency exchange rate fluctuations discussed above. Excluding the negative impact of foreign currency exchange rate fluctuations, gross margin percentage in 2000 would have been 52.8%.

Selling and administrative expense increased to $128.3 million in 2000 as compared to $110.8 million in 1999. As a percentage of sales, selling and administrative expenses totaled 32.4% in 2000 compared to 29.5% in 1999. During 2000, we recorded under selling and administrative expense, a nonrecurring severance charge of $1.5 million related to the restructuring of our orthopedic direct sales force, as described in Note 11 to our consolidated financial statements. This restructuring involved replacing our orthopedic direct sales force with non-stocking exclusive sales agent groups in certain geographic regions of the United States. This plan resulted in greater sales force coverage in the affected geographic regions. During 1999, we recorded in selling and administrative expense, the nonrecurring $1.3 million benefit of a previously recorded litigation accrual which was settled on favorable terms. Excluding these nonrecurring items, as a percentage of sales, selling and administrative expense increased to 32.0% in 2000 as compared to 29.8% in 1999. This increase, as a percentage of sales, is a result of increased spending on sales and marketing programs, including higher commission and other costs associated with the change to exclusive sales agent groups.

Research and development expense was $14.9 million in 2000 as compared to $12.1 million in 1999. As a percentage of sales, research and development expense increased to 3.8% in 2000 as compared to 3.2% in 1999. This increase represents expanded research and development efforts primarily focused on new product development in the orthopedic product lines.

Interest expense in 2000 was $34.3 million compared to $32.4 million in 1999. The increase in interest expense is primarily a result of higher weighted average interest rates on the term loans and revolving credit facility under our credit agreement, as described in Note 5 to our consolidated financial

statements, which increased to 8.73% and 9.06% at December 31, 2000 as compared to 8.00% and 7.45% at December 31, 1999 resulting in increased interest expense.

LIQUIDITY AND CAPITAL RESOURCES

Cash generated from our operations and borrowings under our revolving credit facility have traditionally provided the working capital for our operations, debt service under our credit facility and the funding of our capital expenditures. In addition, we have used term borrowings, including:

- borrowings under our credit facility;

- Senior Subordinated Notes issued to refinance borrowings under our credit facility, in the case of the Linvatec acquisition in 1997; and

- borrowings under separate loan facilities, in the case of real property acquisitions, to finance our acquisitions. Following the use of the proceeds of the offering to repay term loan borrowings under our credit facility, we expect to continue to use cash flow from our operations and borrowings under our revolving credit facility to finance our operations, our debt service under our credit facility and the funding of our capital expenditures.

Our term loans under our credit facility at March 31, 2002 aggregated $115.9 million. Our term loans are repayable quarterly over remaining terms of approximately three years. Our credit facility also includes a $100.0 million revolving credit facility which expires December 2002, of which $43.0 million was available at March 31, 2002. The borrowings under the credit facility carry interest rates based on a spread over LIBOR or an alternative base interest rate. The weighted average interest rates at March 31, 2002 under the term loans and the revolving credit facility were 4.20% and 3.70%.

The Senior Subordinated Notes are in aggregate principal amount of $130.0 million, have a maturity date of March 15, 2008 and bear interest at 9.0% per annum which is payable semiannually.

We used term loans to purchase the property in Largo, Florida utilized by our Linvatec subsidiary. The term loans consist of a Class A note bearing interest at 7.50% per annum with semiannual payments of principal and interest through June 2009, a Class C note bearing interest at 8.25% per annum compounded semiannually through June 2009, after which semiannual payments of principal and interest will commence, continuing through June 2019 and a seller-financed note bearing interest at 6.50% per annum with monthly payments of principal and interest through July 2013. The principal balances outstanding on the Class A note, Class C note and seller-financed note aggregate $11.7 million, $6.5 million and $4.1 million at March 31, 2002.

Our net working capital position was $47.4 million at March 31, 2002 as compared to $44.7 million at December 31, 2001. Included in net working capital is $57.0 million owed on our revolving credit facility which terminates on December 31, 2002. We have begun discussions with our bank group regarding extending the revolving credit facility or, as an alternative, renegotiating the entire senior credit agreement. Based on our current discussions, we believe that we will be able to successfully complete a senior credit arrangement which will provide sufficient capital for our business. However, because of changed economic conditions compared to market conditions in 1997 when our present credit agreement was completed, we expect, based on discussions with our bank group and current market conditions, that any new facility will carry interest costs 75 to 100 basis points higher than our present credit agreement. Based on

the amounts outstanding at March 31, 2002 under the credit agreement, an increase of 75 to 100 basis points would result in an increase in annual interest expense of approximately $1.3 million to $1.7 million.

On November 1, 2001, we entered into a five-year accounts receivable sales agreement pursuant to which we and certain of our subsidiaries sell on an ongoing basis certain accounts receivable to CONMED Receivables Corporation, a wholly-owned special-purpose subsidiary. CRC may in turn sell up to an aggregate $50.0 million undivided percentage ownership interest in those receivables to a commercial paper conduit. As of March 31, 2002 and December 31, 2001, the undivided percentage ownership interest in receivables sold by CRC to a commercial paper conduit aggregated $40.0 million, which has been accounted for as a sale and reflected in the balance sheet as a reduction in accounts receivable. We used the $40.0 million in proceeds from the sale of accounts receivable in November 2001 to repay a portion of our term loans under our credit agreement described in Note 5 to our consolidated financial statements. The sale of accounts receivable is expected to enable us to lower our cost of capital by approximately $0.5 million annually by effectively accessing the commercial paper market. There are certain statistical ratios primarily related to sales dilution and losses on accounts receivable which must be calculated and maintained on the pool of receivables in order to continue selling to the conduit purchaser. Management believes that additional accounts receivable arising in the normal course of business will be of sufficient quality and quantity to qualify for sale under the accounts receivable sales agreement. In the event that new accounts receivable arising in the normal course of business do not qualify for sale, then collections on sold receivables will flow to the conduit purchaser rather than being used to fund new receivable purchases. If this were to occur, we would need to access an alternate source of working capital.

Net cash provided by operations, which we also refer to as "operating cash flow," increased to $12.4 million for the first three months of 2002 compared to $11.1 million for the same period in 2001, primarily as a result of higher net income. In reconciling net income to operating cash flow, operating cash flow in the first quarter of 2002 was positively impacted by depreciation, amortization and increases in accounts payable and deferred income taxes and negatively impacted primarily by an increase in inventory and decreases in accrued compensation and accrued interest. The increase in inventory is primarily related to expected increases in sales. The increases in accounts payable and deferred income taxes and decreases in accrued compensation and interest are primarily related to the timing of the payment of these liabilities.

Net cash provided by operations was $77.1 million in 2001. Operating cash flow increased substantially in 2001 compared with 2000 and 1999 as a result of the sale of accounts receivable as noted above, which increased operating cash flows by $40.0 million. Excluding the effects of the receivable sale, operating cash flow was $37.1 million in 2001. In reconciling net income to operating cash flow, operating cash flow in 2001 was positively impacted primarily by depreciation, amortization and deferred income taxes and negatively impacted primarily as a result of increases in inventory and accounts receivable

(excluding the effects of the receivables sale) as a result of the second Imagyn acquisition and overall higher sales levels experienced in 2001.

Net cash provided by operations was $36.0 million in 2000. Operating cash flow in 2000 declined compared with $37.4 million in 1999 primarily as a result of lower net income in 2000 as compared to 1999. In reconciling net income to operating cash flow, operating cash flow in 2000 was positively impacted primarily by depreciation, amortization and deferred income taxes and negatively impacted primarily as a result of increased inventories and accounts receivable

as a result of overall higher sales levels in 2000 than 1999.

Net cash provided by operations was $37.4 million in 1999. Operating cash flow in 1999 was positively impacted primarily by depreciation, amortization and deferred income taxes. In reconciling net income to operating cash flow, operating cash flow in 1999 was negatively impacted primarily as a result of increases in accounts receivable and inventories. The increase in accounts receivable and inventory was primarily related to the increase in sales compared with the prior year.

Capital expenditures in the three months ended March 31, 2002 were $3.2 million compared to $3.9 million in the same period a year ago. Capital expenditures for 2001, 2000 and 1999 amounted to $14.4 million, $14.1 million, and $9.4 million. These capital expenditures represent the ongoing capital investment requirements of our business and are expected to continue at the rate of approximately $12.0 to $14.0 million annually.

Net cash used by investing activities in 2000 included $6.0 million paid related to the Imagyn acquisition. Net cash used by investing activities in 1999 included $40.6 million paid related to the acquisition of the powered surgical instrument business from 3M in August 1999, as described in Note 2 to our consolidated financial statements.

Financing activities in the three months ended March 31, 2002 consisted primarily of scheduled payments of $8.9 million on our term loans and $1.0 million in repayments under our revolving credit facility. Financing activities in the three months ended March 31, 2001 consisted primarily of scheduled payments of $9.0 million on our term loans and $3.0 million in borrowings under our revolving credit facility. Proceeds from the issuance of common stock related to our employee incentive stock option plans totaled $2.0 million in the three months ended March 31, 2002 as compared to $.5 million in the three months ended March 31, 2001.

Financing activities in 2001 include $11.0 million in borrowings under the revolving credit facility, $36.4 million in scheduled payments on our term loans, and $40.0 million in additional payments on our term loans with the proceeds from the accounts receivable sale discussed above. Financing activities in 2000 include $17.0 million in borrowings under the revolving credit facility and $32.9 million in scheduled payments on our term loans. Financing activities during 1999 include a $40.0 million term loan used to fund the acquisition of the powered surgical instrument business from 3M Company in August 1999, scheduled payments of $23.1 million on our previously existing term loans and $8.0 million in repayments on our revolving credit facility. Proceeds from the issuance of common stock related to our employee incentive stock option plans totaled $1.8 million in 2001, $0.4 million in 2000 and $1.6 million in 1999.

Assuming the successful renegotiation of the revolving credit facility discussed above, management believes that cash generated from operations, our current cash resources and funds available under our revolving credit facility will provide sufficient liquidity to ensure continued working capital for operations, debt service and funding of capital expenditures in the foreseeable future.

CONTRACTUAL OBLIGATIONS

There were no capital lease obligations or unconditional purchase obligations as of March 31, 2002. The following table summarizes our contractual obligations related to operating leases and long-term debt as of March 31, 2002:

	2002	2003	2004	2005	2006	THEREAFTER
			(IN THOUSANDS)			
Long-term debt.....	$63,368	$43,364	$36,749	$35,181	$1,943	$145,386
Operating lease obligations.....	1,300	1,255	1,036	962	933	1,950
Total contractual cash obligations.....	$64,668	$44,619	$37,785	$36,143	$2,876	$147,336

Included in long-term debt obligations in 2002 is $57.0 million due under our revolving credit facility.

As indicated under "Liquidity and Capital Resources," we have begun discussions with our bank group regarding extending our revolving credit facility or, as an alternative, renegotiating our entire senior credit agreement. If those negotiations are successful, payments on a portion of our long-term debt due in 2002 through 2005, including the current portion of that long-term debt represented by our revolving credit facility, would be due at later dates.

As indicated under "Use of Proceeds," we will use the net proceeds from this offering to repay outstanding debt under our credit agreement. On a pro forma basis, assuming net proceeds from this offering of $72.3 million, after giving effect to the application of the net proceeds from this offering to repay term loans and without considering any changes to payment dates as a result of a negotiation of our credit facility, the amount of long-term debt due in 2003 would be reduced to about $32 million and the amount of long-term debt due in 2004 would be reduced to about $2 million.

BUSINESS

GENERAL

CONMED Corporation is a medical technology company specializing in instruments, implants and video equipment for arthroscopic sports medicine, and powered surgical instruments, such as drills and saws, for orthopedic, ENT, neuro-surgery and other surgical specialties. We are also a leading developer, manufacturer and supplier of advanced surgical devices, including radio frequency, or RF, electrosurgery systems used routinely to cut and cauterize tissue in nearly all types of surgical procedures worldwide, and endoscopy products, such as trocars, clip appliers, scissors and surgical staplers. We also manufacture and sell a full line of ECG electrodes for heart monitoring and other patient care products. Our products are used in a variety of clinical settings, such as operating rooms, surgery centers, physicians' offices and critical care areas of hospitals.

We have used strategic business acquisitions to broaden our product offerings, to increase our market share in certain product lines and to realize economies of scale. Since 1997, we have completed six strategic business acquisitions. The completed acquisitions, together with internal growth, have resulted in a compound annual growth rate in net sales of 32% between 1997 and

2001.

INDUSTRY

The growth in the markets for our products is primarily driven by:

- FAVORABLE DEMOGRAPHICS. The number of surgical procedures performed is increasing. This growth in surgical procedures reflects demographic trends, such as the aging of the population, and technological advancements, which result in safer and less invasive surgical procedures. Additionally, as people are living longer, more active lives, they are engaging in contact sports and activities such as running, skiing, rollerblading, golf and tennis which result in injuries with greater frequency and at an earlier age than ever before. Sales of our surgical products represented over 85% of our total 2001 sales. See "--Our Products."

- CONTINUED PRESSURE TO REDUCE HEALTH CARE COSTS. In response to rising health care costs, managed care companies and other third-party payers have placed pressure on health care providers to reduce costs. As a result, health care providers have focused on the high cost areas such as surgery. To reduce costs, health care providers use minimally invasive techniques, which generally reduce patient trauma, recovery time and ultimately the length of hospitalization. Many of our products are designed for use in minimally invasive surgical procedures. See "--Our Products." Health care providers are also increasingly purchasing single-use disposable products, which reduce the costs associated with sterilizing surgical instruments and products following surgery. The single-use nature of disposable products lowers the risk of incorrectly sterilized instruments spreading infection into the patient and increasing the cost of post-operative care. Approximately 75% of our sales are derived from single-use disposable products.

  In the United States, the pressure on health care providers to contain costs has altered their purchasing patterns for general surgical instruments and disposable medical products. Many health care providers have entered into comprehensive purchasing contracts with fewer suppliers, which offer a broader array of products at lower prices. In addition, many health care providers have aligned themselves with GPOs or IHNs, which aggregate the purchasing volume of their members in order to negotiate competitive pricing with suppliers, including manufacturers of surgical products. We believe that these trends will favor entities that offer a broad product portfolio. See "--Business Strategy" below.

- INCREASED GLOBAL MEDICAL SPENDING. We believe that foreign markets offer growth opportunities for our products. We currently distribute our products through our own sales subsidiaries or through local dealers in over 100 foreign countries. International sales represented approximately 29% of total sales in 2001.

COMPETITIVE STRENGTHS

We believe that we have a top two or three market share position in each of our five key product areas and have established our position as a market leader by capitalizing on the following competitive strengths:

- STRONG BRAND RECOGNITION. We are a leading provider of arthroscopic surgery devices, electrosurgical systems, powered surgical instruments and ECG electrodes. Our products are sold under leading brand names,

including CONMED(R), Linvatec(R) and Hall Surgical(R). These brand names are well recognized by physicians for quality and service. We believe that brand recognition helps drive demand for our products by enabling us to build upon the reputation for quality and service associated with these brands and gain faster acceptance when introducing new branded products.

- BREADTH OF PRODUCT OFFERING. The breadth of our product lines in our key product areas enables us to meet a wide range of customer requirements and preferences. In three of our five key product areas, we are only one of two providers that offers a full line of products. For example, we offer a complete set of the arthroscopy products a surgeon requires for most arthroscopic procedures, including instrument and repair sets, implants, shaver consoles and handpieces, video systems and related disposables. This in turn has enhanced our ability to market our products to surgeons, hospitals, surgery centers, GPOs, IHNs and other customers, particularly as institutions seek to reduce costs and to minimize the number of suppliers.

- SUCCESSFUL INTEGRATION OF ACQUISITIONS. Since 1997, we have completed six acquisitions, including the 1997 acquisition of Linvatec Corporation which more than doubled our size. These acquisitions have enabled us to broaden our product categories, expand our sales and distribution capabilities and increase our international presence. Our management team, which averages more than 15 years of experience in the health care industry, has demonstrated a historical ability to identify complementary acquisitions and to integrate acquired companies into our operations.

- EXTENSIVE MARKETING AND DISTRIBUTION INFRASTRUCTURE. We market our products domestically through our sales force consisting of approximately 210 employee sales representatives and an additional 90 sales professionals employed by eight non-stocking sales agent groups, seven of which are exclusive. All of our sales professionals are highly trained and educated in the applications or procedures for the products they sell. They call directly on surgeons, hospital departments, outpatient surgery centers and physician offices. Additionally, we have an international presence through sales subsidiaries and branches located in key international markets. We sell direct to hospital customers in these markets with an employee-based international sales force of approximately 40 sales representatives. We also maintain distributor relationships domestically and in numerous countries worldwide. See "--Marketing."

- VERTICALLY INTEGRATED MANUFACTURING. We manufacture most of our products and components. Our vertically integrated manufacturing process has allowed us to provide quality products, to react quickly to changes in demand and to generate manufacturing efficiencies, including purchasing raw materials used in a variety of disposable products in bulk. We believe that these manufacturing capabilities allow us to contain costs, control quality and maintain security of proprietary processes. We continually evaluate our manufacturing processes with the objective of increasing automation, streamlining production and enhancing efficiency in order to achieve cost savings, while seeking to improve quality.

- RESEARCH AND DEVELOPMENT EXPERTISE. Our research and development effort is focused on introducing new products, enhancing existing products and developing new technologies. During the last two years, we have introduced more than 24 products and product enhancements. Our reputation as an innovator is exemplified by our "first-to-market" product introductions, which include the Envision(TM) Autoclavable Three Chip Camera Head, Advantage(TM) drive system, the Trident(TM)resection ablator, the SureCharge(TM) battery sterilization system and the 2.9 millimeter arthroscopy scope. Research and development expenditures were

$14.8 million in 2001.

BUSINESS STRATEGY

Our business strategy is to continue to strengthen our position as a market leader in our key product areas. The elements of our strategy include:

- INTRODUCE NEW PRODUCTS AND PRODUCT ENHANCEMENTS. We will continue to pursue organic growth by developing new products and enhancing existing products to respond to customer needs and preferences. We are continually seeking to develop new technologies to improve durability, performance and usability of existing products. In addition to our research and development, we receive new ideas for products and technologies, especially in procedure-specific areas, from surgeons, inventors and operating room personnel.

- PURSUE STRATEGIC ACQUISITIONS. We believe that strategic acquisitions represent a cost-effective means of broadening our product line. We have historically targeted companies with proven technologies and established brand names that provide potential sales, marketing and manufacturing synergies. Since 1997, we have completed six acquisitions, expanding our product line to include arthroscopy products, powered surgical instruments and most recently endoscopy products.

- REALIZE MANUFACTURING AND OPERATING EFFICIENCIES. We will continue to review opportunities for consolidating product lines and streamlining production. We believe our vertically integrated manufacturing processes can produce further opportunities to reduce overhead and to increase operating efficiencies and capacity utilization.

- MAINTAIN STRONG INTERNATIONAL SALES GROWTH. We believe there are significant sales opportunities for our surgical products outside the United States. We intend to maintain our international sales growth and increase our penetration into international markets by utilizing our relationships with foreign surgeons, hospitals and third-party payers, as well as foreign distributors. In 2001, our sales outside the United States grew by 14% and represented 29% of our 2001 sales.

OUR PRODUCTS

The following table sets forth the percentage of net sales for each category of our products for 1999, 2000 and 2001:

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
Arthroscopy	38%	36%	36%
Powered surgical instruments	23	29	27
Electrosurgery	17	16	16
Patient Care	21	17	16
Endoscopy	1	2	5
Total	100%	100%	100%
Net sales (in thousands)	$376,226	$395,873	$428,722

ARTHROSCOPY

We offer a broad line of devices and products for use in arthroscopic surgery. Arthroscopy refers to diagnostic and therapeutic surgical procedures performed on joints with the use of minimally-invasive arthroscopes and related instruments. Minimally-invasive arthroscopy procedures enable surgical repairs to be completed with less trauma to the patient, resulting in shorter recovery times and cost savings. About 75% of all arthroscopy is performed on the knee, although arthroscopic procedures are increasingly performed on shoulders and smaller joints, such as the wrist and ankle.

Our arthroscopy products include powered resection instruments, arthroscopes, reconstructive systems, tissue repair sets, fluid management systems, imaging products, implants and related disposable products.

It is our standard practice to transfer some of these products, such as shaver consoles and pumps, to certain customers at no charge. These capital "placements" allow for and accommodate the use of a variety of disposable products, such as shaver blades, burs and pump tubing. We have benefited from the introduction of new products and new technologies in the arthroscopic area, such as bioresorbable screws, ablators, "push-in" and "screw-in" suture anchors, resection shavers and cartilage repair implants.

The majority of arthroscopic procedures are performed to repair injuries that have occurred in the joint areas of the body. Many of these injuries are the result of sports related events or other traumas. This explains why arthroscopy is sometimes referred to as "sports medicine."

ARTHROSCOPY

PRODUCT	DESCRIPTION	BRAND NAME
Ablators and Shaver Ablators	Electrosurgical ablators and resection ablators to resect and remove soft tissue and bone; used in knee, shoulder and small joint surgery.	Advantage(TM) ESA(TM) Sterling(R) UltrAblator(TM) Heatwave(TM) Trident(R)
Knee Reconstructive Systems	Products used in cruciate reconstructive surgery; includes instrumentation, screws, pins and ligament harvesting and preparation devices.	Paramax(R) Pinn-ACL(R) GraFix(TM)
Soft Tissue Repair Systems	Instrument systems designed to attach specific torn or damaged soft tissue to bone or other soft tissue in the knee, shoulder and wrist; includes instrumentation, guides, hooks and suture devices.	Spectrum(R) Inteq(R) Shuttle Relay(TM) Blitz(R)
Fluid Management Systems	Disposable tubing sets, disposable and reusable inflow	Apex(R) Quick-Flow(R)

	devices, pumps and suction/waste management systems for use in arthroscopic and general surgeries.	Quick-Connect(R)
Imaging	Surgical video systems for endoscopic procedures; includes autoclavable single and three-chip camera heads and consoles, endoscopes, light sources, monitors, VCRs and printers.	Apex(R) 8180 Series Envision(TM) Autoclavable Three Chip Camera Head
Implants	Products including bioabsorbable and metal interference screws and suture anchors for attaching soft tissue to bone in the knee, shoulder and wrist as well as miniscal repair.	BioScrew(R) BioStinger(R) BioAnchor(R) BioTwist(R) Ultrafix(R) Revo(R) Super Revo(R)
Other Instruments and Accessories	Forceps, graspers, punches, probes, sterilization cases and other general instruments for arthroscopic procedures.	Shutt(R) Concept(R) TractionTower(R)

POWERED SURGICAL INSTRUMENTS

Powered surgical instruments are used to perform orthopedic, arthroscopic and other surgical procedures, such as cutting, drilling or reaming and are driven by electric, battery or pneumatic power. Each instrument consists of one or more handpieces and related accessories as well as disposable and limited reuse items (e.g., burs, saw blades, drills and reamers). Powered instruments are generally

categorized as either small bone, large bone or specialty powered instruments. Specialty powered instruments include surgical applications such as spine, neurosurgery, otolaryngology (ENT), oral/maxillofacial surgery, and cardiothoracic surgery.

Our line of powered instruments is sold principally under the Hall(R) Surgical brand name, for use in large and small bone orthopedic, arthroscopic, oral/maxillofacial, podiatric, plastic, otolaryngologic, neurological, spine and cardiothoracic surgeries. Large bone, neurosurgical, spine and cardiothoracic powered instruments are sold primarily to hospitals, while small bone arthroscopic, otolaryngological and oral/maxillofacial powered instruments are sold to hospitals, outpatient facilities and physician offices. Our Linvatec subsidiary has devoted substantial resources to developing a new technology base for large bone, small bone, arthroscopic, neurosurgical, spine and otolaryngological instruments that can be easily adapted and modified for new procedures.

Our powered instruments line also includes our recently introduced PowerPro(R) Battery System, which is a full function orthopedic power system specifically designed to meet the requirements of most orthopedic applications. The PowerPro(R) Battery System has a Surecharge(TM) option that allows the user to sterilize the battery before it is charged. This ensures that the battery will be fully charged when delivered to the operating room, unlike other battery systems currently available on the market. The PowerPro(R) uses a process we invented for maintaining sterility during the charging process, thus avoiding

the loss of battery charge during sterilization, a problem frequently encountered by competing battery systems during sterilization.

POWERED SURGICAL INSTRUMENTS

PRODUCT	DESCRIPTION	BRAND NAME
Large Bone	Powered saws, drills and related disposable accessories for use primarily in total knee and hip joint replacements and trauma surgical procedures.	Hall(R) Surgical MaxiDriver(TM) VersiPower(R) Plus Series 4(R) PowerPro(R) Advantage(TM) SureCharge(TM)
Small Bone	Powered saws, drills and related disposable accessories for small bones and joint surgical procedures.	Hall(R) Surgical E9000(R) MiniDriver(TM) MicroChoice(R) Micro 100(TM) Advantage(TM)
Otolaryngology Neurosurgery Spine	Specialty powered saws, drill and related disposable accessories for use in neurosurgery, spine, and otolaryngologic procedures.	Hall(R) Surgical E9000(R) UltraPower(R) Hall Osteon(R) Hall Ototome(R)
Cardiothoracic Oral/Maxillofacial	Powered sternum saws, drills, and related disposable accessories for use by cardiothoracic and oral/maxillofacial surgeons.	Hall(R) Surgical E9000(R) UltraPower(R) Micro 100(TM) VersiPower(R)Plus

Electrosurgery is the technique of using a high-frequency electric current which, when applied to tissue through special instruments, can be used to cut tissue, coagulate, or cut and coagulate simultaneously. Radio frequency ("RF") is the form of high frequency electric current that is used in electrosurgery. An electrosurgical system consists of a generator, an