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CONMED CORP
Form 10-Q/A
August 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No.1)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended March 31, 2003

Commission File Number 0-16093

CONMED CORPORATION

(Exact name of the registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

16-0977505
(I.R.S. Employer
Identification No.)

525 French Road, Utica, New York
(Address of principal executive offices)

13502
(Zip Code)

(315) 797-8375

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 126-2).

Yes No

The number of shares outstanding of registrant's common stock, as of April 28, 2003 is 28,943,210 shares.

CONMED CORPORATION

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Explanatory Note

This Amendment No. 1 to CONMED Corporation's Quarterly Report on Form 10-Q/A includes unaudited restated consolidated condensed financial statements as of March 31, 2003 and for the three months ended March 31, 2003. The purpose of this restatement is to reflect in our results of operations for the three months ended March 31, 2003, the purchase price allocation of our March 10, 2003 purchase of Bionx Implants, Inc. The purchase price allocation, which we arrived

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at with the assistance of a third party valuation, resulted in a \$7.9 million write-off of purchased in-process research and development assets. Information regarding the restatement is included in Note 1 to the consolidated condensed financial statements. The items amended in this 10-Q/A are Items 1, 2 and 4.

PART I FINANCIAL INFORMATION

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PART I FINANCIAL INFORMATION

Item 1.

CONMED CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(in thousands except per share amounts)
(unaudited)

| | Three Months Ended | |
|---------------------|--------------------|------------|
| | March 31, | |
| | | Restated |
| | 2002 | 2003 |
| Net sales | \$113,205 | \$ 118,034 |
| Cost of sales | 54,104 | 56,378 |

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| | | |
|----------------------------------------------------------------------------|----------|----------|
| | ----- | ----- |
| Gross profit | 59,101 | 61,656 |
| Selling and administrative | 34,468 | 37,145 |
| Research and development | 3,824 | 3,703 |
| Write-off of purchased in-process research and development assets | -- | 7,900 |
| Other expense (income) | -- | (7,492) |
| | ----- | ----- |
| | 38,292 | 41,256 |
| Income from operations | 20,809 | 20,400 |
| Interest expense | 6,628 | 5,538 |
| | ----- | ----- |
| Income before income taxes | 14,181 | 14,862 |
| Provision for income taxes | 5,105 | 8,194 |
| | ----- | ----- |
| Net income | \$ 9,076 | \$ 6,668 |
| | ===== | ===== |
| Per share data: | | |
| Net income | | |
| Basic | \$.36 | \$.23 |
| Diluted | .35 | .23 |
| Weighted average common shares* | | |
| Basic | 25,397 | 28,876 |
| Diluted | 25,969 | 29,037 |

* Not restated.

See notes to consolidated condensed financial statements.

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CONMED CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(in thousands except share amounts)
(unaudited)

| | | |
|--|--------------|-----------|
| | December 31, | Restated |
| | 2002 | March 31, |
| | ---- | 2003 |
| | | ---- |

ASSETS

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| | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 5,626 | \$ 6,250 |
| Accounts receivable, net | 58,093 | 60,257 |
| Inventories | 120,443 | 125,922 |
| Deferred income taxes | 6,304 | 6,321 |
| Prepaid expenses and other current assets | 3,200 | 3,645 |
| | ----- | ----- |
| Total current assets | 193,666 | 202,395 |
| | ----- | ----- |
| Property, plant and equipment, net | 95,608 | 97,403 |
| Goodwill | 262,394 | 286,484 |
| Other intangible assets, net | 180,271 | 194,631 |
| Other assets | 10,201 | 9,977 |
| | ----- | ----- |
| Total assets | \$ 742,140 | \$ 790,890 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 2,631 | \$ 2,387 |
| Accounts payable | 22,074 | 21,851 |
| Accrued compensation | 10,463 | 9,484 |
| Income taxes payable | 5,885 | 8,260 |
| Accrued interest | 3,794 | 1,058 |
| Other current liabilities | 13,127 | 15,032 |
| | ----- | ----- |
| Total current liabilities | 57,974 | 58,072 |
| | ----- | ----- |
| Long-term debt | 254,756 | 282,949 |
| Deferred income taxes | 28,446 | 38,426 |
| Other long-term liabilities | 14,025 | 14,347 |
| | ----- | ----- |
| Total liabilities | 355,201 | 393,794 |
| | ----- | ----- |
| Shareholders' equity: | | |
| Preferred stock, par value \$.01 per share; authorized 500,000 shares; none outstanding . | -- | -- |
| Common stock, par value \$.01 per share; 100,000,000 shares authorized; 28,808,105 and 28,915,707 shares issued and outstanding in 2002 and 2003, respectively | 288 | 290 |
| Paid-in capital | 231,832 | 233,613 |
| Retained earnings | 162,391 | 169,059 |
| Accumulated other comprehensive loss | (7,153) | (5,447) |
| Less 37,500 shares of common stock in treasury, at cost | (419) | (419) |
| | ----- | ----- |
| Total shareholders' equity | 386,939 | 397,096 |
| | ----- | ----- |
| Total liabilities and shareholders equity . | \$ 742,140 | \$ 790,890 |
| | ===== | ===== |

See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (in thousands) (unaudited)

| | Three Months Ended | |
|------------------------------------------------------------------------------|--------------------|----------|
| | March 31, | |
| | | Restated |
| | 2002 | 2003 |
| Cash flows from operating activities: | | |
| Net income | \$ 9,076 | \$ 6,668 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation | 2,206 | 2,374 |
| Amortization | 3,197 | 3,168 |
| Deferred income taxes | 2,758 | 4,409 |
| Write-off of purchased in-process research and development assets | -- | 7,900 |
| Increase (decrease) in cash flows from changes in assets and liabilities: | | |
| Accounts receivable | 289 | 1,270 |
| Inventories | (3,605) | (3,107) |
| Accounts payable | 6,503 | (1,580) |
| Income taxes payable | (167) | 2,375 |
| Accrued compensation | (2,607) | (1,943) |
| Accrued interest | (3,381) | (2,736) |
| Other assets/liabilities, net | (1,918) | 1,680 |
| | 3,275 | 13,810 |
| Net cash provided by operating activities | 12,351 | 20,478 |
| Cash flows from investing activities: | | |
| Payments related to business acquisitions, net of cash acquired | -- | (48,177) |
| Purchases of property, plant, and equipment | (3,208) | (1,710) |
| Net cash used by investing activities | (3,208) | (49,887) |
| Cash flows from financing activities: | | |
| Net proceeds from exercise of stock options | 1,985 | 808 |
| Payments on debt | (9,938) | (3,051) |
| Proceeds of debt | -- | 31,000 |
| Net cash provided (used) by financing activities | (7,953) | 28,757 |
| Effect of exchange rate changes on cash and cash equivalents | 42 | 1,276 |
| Net increase in cash and cash equivalents | 1,232 | 624 |

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| | | |
|--------------------------------------------------------|----------|----------|
| Cash and cash equivalents at beginning of period | 1,402 | 5,626 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 2,634 | \$ 6,250 |
| | ===== | ===== |

See notes to consolidated condensed financial statements.

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CONMED CORPORATION
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
 (in thousands except share amounts)
 (unaudited)

Note 1 - Operations and Significant Accounting Policies

Organization and Operations

The consolidated condensed financial statements include the accounts of CONMED Corporation and its subsidiaries ("CONMED", the "Company", "we" or "us"). All intercompany accounts and transactions have been eliminated. 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 a leading developer, manufacturer and supplier of RF electrosurgery systems used routinely to cut and cauterize tissue in nearly all types of surgical procedures worldwide, endoscopy products such as trocars, clip appliers, scissors and surgical staplers, and a full line of ECG electrodes for heart monitoring and other patient care products. We also offer integrated operating room systems and intensive care unit service managers. Our products are used in a variety of clinical settings, such as operating rooms, surgery centers, physicians' offices and critical care areas of hospitals. Our business is organized, managed and internally reported as a single segment, since our product offerings have similar economic, operating and other related characteristics.

Restatement

The purpose of the restatement described below is to reflect in our consolidated condensed financial statements for the quarter ended March 31, 2003, the purchase price allocation of our March 10, 2003 acquisition of Bionx Implants, Inc. (the "Bionx acquisition"). The purchase price allocation was arrived at with the assistance of a third party valuation. The impact of the restatement on the consolidated condensed statement of income for the quarter ended March 31, 2003, is to recognize expense of \$7.9 million to write-off the purchased in-process research and development assets acquired as a result of the Bionx acquisition. No benefit for income taxes has been recorded on the write-off of the purchased in-process research and development assets as these costs are not deductible for income tax purposes. A summary of the impact of the restatement on the consolidated condensed statement of income for the three months ended March 31, 2003 is as follows:

| As Previously Reported | Adjustment | As Restated |
|------------------------------|------------|----------------|
| ----- | ----- | ----- |

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Consolidated Condensed Statement of Income Data For the Quarter Ended March 31, 2003:

| | | | |
|----------------------------------------------------------------------------|----------|-----------|----------|
| Write-off of purchased in-process Research and development assets | \$ -- | \$ 7,900 | \$ 7,900 |
| Income from operations | 28,300 | (7,900) | 20,400 |
| Income before income taxes | 22,762 | (7,900) | 14,862 |
| Net income | \$14,568 | \$(7,900) | \$ 6,668 |
| Net income per share: | | | |
| Basic | \$.50 | \$ (.27) | \$.23 |
| Diluted | .50 | (.27) | .23 |

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The impact of the restatement on the consolidated condensed balance sheets, apart from the in-process research and development write-off, is the reclassification of a portion of the purchase price from goodwill to inventory, property, plant and equipment and other intangible assets as shown above. We have also recognized a deferred income tax liability based on the difference between the financial statement and tax basis of assets and liabilities acquired as a result of the Bionx acquisition. A summary of the impact of the restatement on the consolidated condensed balance sheet at March 31, 2003 is as follows:

| | As Previously Reported ----- | Adjustment ----- | As Restated ----- |
|--------------------------------------------------------------------|---------------------------------------|---------------------|-------------------------|
| Consolidated Condensed Balance Sheet Data As of March 31, 2003: | | | |
| Inventories | \$125,721 | \$ 201 | \$125,922 |
| Property, plant and equipment, net | 96,326 | 1,077 | 97,403 |
| Goodwill | 304,530 | (18,046) | 286,484 |
| Other intangible assets, net | 180,209 | 14,422 | 194,631 |
| Total assets | \$793,236 | \$ (2,346) | \$790,890 |
| Deferred income taxes | \$ 32,872 | \$ 5,554 | \$ 38,426 |
| Total liabilities | \$388,240 | \$ 5,554 | \$393,794 |
| Retained earnings | \$176,959 | \$ (7,900) | \$169,059 |
| Total shareholders' equity | \$404,996 | \$ (7,900) | \$397,096 |

The impact of the restatement on the consolidated condensed statement of cash flows is to reduce net income by the \$7.9 million write-off of the purchased in-process research and development assets and increase non-cash expense related to the write-off by \$7.9 million. The restatement had no effect on net cash provided by operating activities for the three months ended March 31, 2003. A summary of the impact of the restatement on the consolidated condensed statement of cash flows for the three months ended March 31, 2003 is as follows:

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| | As Previously Reported ----- | Adjustment ----- | As Restated ----- |
|------------------------------------------------------------------------------|---------------------------------------|---------------------|-------------------------|
| Consolidated Condensed Statement of Cash Flows Data as of March 31, 2003: | | | |
| Net income | \$14,568 | \$(7,900) | \$ 6,668 |
| Write-off of purchased in-process research and development assets | \$ -- | \$ 7,900 | \$ 7,900 |
| Net cash provided by operating activities | \$20,478 | \$ -- | \$20,478 |

The Bionx acquisition and the related purchased in-process research and development write-off are described more fully in Note 6 to the consolidated condensed financial statements.

Stock-based Compensation

We account for our stock-based compensation plans under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". No compensation expense has been recognized in the accompanying financial statements relative to our stock option plans. Pro forma information regarding net income and earnings per share is required by Statement of Financial Accounting Standards No. 123,

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"Accounting for Stock-Based Compensation" ("SFAS 123") and has been determined as if we had accounted for our employee stock options under the fair value method of that statement. The weighted average fair value of options granted in the three months ended March 31, 2002 and 2003 was \$8.66 and \$6.56, respectively. The fair value of these options was estimated at the date of grant using a Black-Scholes options pricing model with the following weighted-average assumptions for options granted in the three months ended March 31, 2002 and 2003, respectively: Risk-free interest rates of 2.70% and 2.87%; volatility factors of the expected market price of the Company's common stock of 41.10% and 43.23%; a weighted-average expected life of the option of five years; and that no dividends would be paid on common stock.

For purposes of the pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

| | Three months ended March 31, 2002 ---- | Restated ----- 2003 ---- |
|---------------------------------|-------------------------------------------------|-----------------------------------|
| Net income -- as reported | \$ 9,076 ----- | \$ 6,668 ----- |

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| | | |
|---------------------------------------------------------------------------------------------|----------|----------|
| Pro forma stock-based employee compensation expense, net of related income tax effect | (474) | (524) |
| | ----- | ----- |
| Net income -- pro forma | \$ 8,602 | \$ 6,144 |
| | ===== | ===== |
| EPS - as reported: | | |
| Basic | \$.36 | \$.23 |
| Diluted | \$.35 | \$.23 |
| EPS - pro forma: | | |
| Basic | \$.34 | \$.21 |
| Diluted | \$.33 | \$.21 |

Note 2 - Interim financial information

The statements for the three months ended March 31, 2002 and 2003 are unaudited; in our opinion such unaudited statements include all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation of the results for such periods. The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results of operations to be expected for any other quarter nor for the year ending December 31, 2003. The consolidated condensed financial statements and notes thereto should be read in conjunction with the financial statements and notes for the year ended December 31, 2002 included in our Annual Report to the Securities and Exchange Commission on Form 10-K.

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Note 3 - Other comprehensive income (loss)

Comprehensive income (loss) consists of the following:

| | Three months ended March 31, | |
|-----------------------------------------------|---------------------------------|------------------|
| | 2002 | Restated 2003 |
| | ---- | ----- |
| Net income | \$9,076 | \$6,668 |
| | ----- | ----- |
| Other comprehensive income: | | |
| Foreign currency translation adjustment | 36 | 1,313 |
| Cash flow hedging (net of income taxes) | 480 | 393 |
| | ----- | ----- |
| Comprehensive income | \$9,592 | \$8,374 |
| | ===== | ===== |

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

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| | Minimum Pension Liability | Cumulative Translation Adjustments | Cash Flow Hedges | Accumulated Other Comprehensive Income (loss) |
|---------------------------------------------------|---------------------------------|------------------------------------------|------------------------|--------------------------------------------------------|
| | ----- | ----- | ----- | ----- |
| Balance, December 31, 2002 | \$ (5,086) | \$ (1,159) | \$ (908) | \$ (7,153) |
| Foreign currency translation adjustments | -- | 1,313 | -- | 1,313 |
| Cash flow hedging (net of income taxes) | -- | -- | 393 | 393 |
| | ----- | ----- | ----- | ----- |
| Balance, March 31, 2003 | \$ (5,086) | \$ 154 | \$ (515) | \$ (5,447) |
| | ===== | ===== | ===== | ===== |

Note 4 - Inventories

The components of inventory are as follows:

| | December 31, | March 31, |
|-----------------------|--------------|-----------|
| | 2002 | Restated |
| | ---- | ----- |
| Raw materials | \$ 44,701 | \$ 43,041 |
| Work-in-process | 12,869 | 14,357 |
| Finished goods | 62,873 | 68,524 |
| | ----- | ----- |
| Total | \$120,443 | \$125,922 |
| | ===== | ===== |

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Note 5 - Earnings per share

Basic earnings per share (EPS) is computed based on the weighted average number of common shares outstanding for the period. Diluted EPS gives effect to all dilutive potential shares outstanding (i.e., options and warrants) during the period. The following is a reconciliation of the weighted average shares used in the calculation of basic and diluted EPS (in thousands):

| | Three months ended | |
|-----------------------------------------------------------------------------------------------|--------------------|--------|
| | March 31, | |
| | 2002 | 2003 |
| | ---- | ---- |
| Shares used in the calculation of Basic EPS (weighted average shares outstanding) | 25,397 | 28,876 |
| Effect of dilutive potential | | |

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| | | |
|--------------------------------------------------------|--------|--------|
| securities | 572 | 161 |
| | ----- | ----- |
| Shares used in the calculation of Diluted EPS | 25,969 | 29,037 |
| | ===== | ===== |

The shares used in the calculation of diluted EPS exclude warrants and options to purchase shares where the exercise price was greater than the average market price of common shares for the period. Such shares aggregated 351 and 2,395 for the three months ended March 31, 2002 and 2003, respectively.

Note 6 - Business acquisitions

On January 13, 2003, we entered into an agreement to acquire the common stock of Bionx Implants, Inc. (the "Bionx acquisition") in a cash transaction valuing Bionx at \$4.35 per share. We completed the acquisition on March 10, 2003, paying \$47.0 million in cash which we financed through borrowings under our revolving credit facility. The results of Bionx's operations have been included in the financial statements since that date.

Bionx develops and manufactures self-reinforced resorbable polymer implants including screws, pins and meniscal implants for use in a variety of orthopedic applications, including sports medicine and fracture fixation. In 2002, Bionx recorded revenues of approximately \$18.0 million. The acquired product lines are expected to complement CONMED's existing orthopedic product lines.

Pro forma statements of income for the three months ended March 31, 2002 and 2003, assuming the Bionx acquisition occurred as of January 1, 2002 are presented below. The pro forma net income and earnings per share for each period presented exclude the \$7.9 million write-off of purchased in-process research and development assets discussed below.

| | Three months ended March 31, | |
|-------------------|---------------------------------|------------|
| | 2002 | 2003 |
| | ---- | ---- |
| Net sales | \$ 117,971 | \$ 121,716 |
| Net income | \$ 8,731 | \$ 14,004 |
| Basic EPS | \$.34 | \$.48 |
| Diluted EPS | .34 | .48 |

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition based on a third-party valuation. Goodwill and identifiable intangible assets associated with the Bionx acquisition are not deductible for income tax purposes.

| | Restated |
|------------------------------------------|----------|
| | ----- |
| Cash..... | \$ 517 |
| Other current assets..... | 7,284 |
| Property, plant and equipment..... | 2,459 |
| In-process research and development..... | 7,900 |
| Identifiable intangible assets..... | 15,700 |

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| | |
|----------------------------------|----------|
| Goodwill..... | 22,351 |
| | ----- |
| Total assets acquired..... | 56,211 |
| | ----- |
| Current liabilities..... | (3,120) |
| Deferred income taxes..... | (5,554) |
| Other long-term liabilities..... | (521) |
| | ----- |
| Total liabilities assumed..... | (9,195) |
| | ----- |
| Net assets acquired..... | \$47,016 |
| | ===== |

Based on the third-party valuation, \$7.9 million of the purchase price represents the estimated fair value of projects that, as of the acquisition date had not reached technological feasibility and had no alternative future use. Accordingly, this amount of purchased in-process research and development assets was written-off to other expense in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method". No benefit for income taxes has been recorded on the write-off of purchased in-process research and development assets as these costs are not deductible for income tax purposes.

The purchased in-process research and development value relates to next generation sports medicine and orthopedic products, which are expected to be released between the second quarter of 2003 and fourth quarter of 2004. The acquired projects include enhancements and upgrades to existing device technology, introduction of new device functionality and the development of new materials technology for sports medicine and orthopedic applications.

The value of the in-process research and development was calculated using a discounted cash flow analysis of the anticipated net cash flow stream associated with the in-process technology of the related product sales. The estimated net cash flows were discounted using a discount rate of 22%, which was based on the weighted-average cost of capital for publicly-traded companies within the medical device industry and adjusted for the stage of completion of each of the in-process research and development projects. The risk and return considerations surrounding the stage of completion were based on costs, man-hours and complexity of the work completed versus to be completed and other risks associated with achieving technological feasibility. In total, these projects were approximately 40% complete as of the acquisition date. The total budgeted costs for the projects were approximately \$5.5 million and the remaining costs to complete these projects were approximately \$3.3 million as of the acquisition date.

The major risks and uncertainties associated with the timely and successful completion of these projects consist of the ability to confirm the safety and efficacy of the technologies and products based on the data from clinical trials and obtaining the necessary regulatory approvals. In addition, no assurance can be given that the underlying assumptions used to forecast the cash flows or the timely and successful completion of such projects will materialize, as estimated. For these reasons, among others, actual results may vary significantly from the estimated results.

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Of the \$15.7 million of acquired intangible assets, \$.8 million were assigned to registered trademarks and are not subject to amortization. The remaining \$14.9 million of acquired intangible assets have a weighted average useful life of 20 years. The intangible assets that make up that amount include \$9.0 million of customer relationships (38 year weighted average useful life), \$5.4 million of core technology (12 year weighted average useful life) and \$.5 million of distributor relationships (7 year weighted average useful life).

During the quarter ended March 31, 2003, we paid additional purchase consideration related to the December 31, 2002 acquisition of CORE Dynamics, Inc. (the "CORE acquisition") of approximately \$1.7 million which resulted in an increase to goodwill and which had been contingent on the satisfactory execution of the plan to transition manufacturing and distribution from CORE's Jacksonville, Florida facility to our facilities in Utica, New York.

During the quarter ended March 31, 2003, we incurred approximately \$1.7 million in other acquisition expenses related primarily to the CORE and Bionx acquisitions of which \$1.3 million has been recorded in other expense and \$.4 million has been recorded to cost of sales. The \$1.3 million recorded to other expense consists of various acquisition integration costs to wind down CORE operations in Jacksonville, Florida and Bionx operations in Blue Bell, Pennsylvania. The \$.4 million recorded to cost of sales consists of the step-up to fair value related to the sale of a portion of the inventory acquired as a result of the CORE and Bionx acquisitions as well as certain training and transition-related costs related to the transfer of CORE's manufacturing operations.

Note 7 - Other expense (income)

Other expense (income) consists of the following:

| | |
|-------------------------------------------------------------------------|------------|
| Gain on settlement of a contractual dispute, net of legal costs..... | (\$9,000) |
| Acquisition-related costs..... | 1,342 |
| Loss on early extinguishments of debt..... | 166 |
| | ----- |
| Other expense (income)..... | \$ (7,492) |
| | ===== |

On March 10, 2003, we entered into an agreement with Bristol-Myers Squibb Company ("BMS") and Zimmer, Inc., ("Zimmer") to settle a contractual dispute related to the 1997 sale by BMS and its then subsidiary, Zimmer, of Linvatec Corporation to CONMED Corporation. As a result of the agreement, BMS paid us \$9.5 million in cash, which has been recorded as a gain on settlement of a contractual dispute net of \$.5 million in legal costs.

During the quarter ended March 31, 2003, we incurred approximately \$1.7 million in costs related primarily to the CORE acquisition and the Bionx acquisition of which \$1.3 million has been recorded in other expense as discussed in Note 6 to the consolidated condensed financial statements.

During the quarter ended March 31, 2003 we purchased \$2.6 million of our 9% senior subordinated notes and recorded expense of \$.2 million in premium and unamortized deferred financing costs to other expense related to this purchase.

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Note 8 - Goodwill and other intangible assets

The changes in the net carrying amount of goodwill for the three months ended March 31, 2003 are as follows:

| | Restated ----- |
|------------------------------------|---------------------|
| Balance as of January 1, 2003..... | \$ 262,394 |
| Goodwill acquired | 24,090 ----- |
| Balance as of March 31, 2003..... | \$ 286,484 ===== |

Other intangible assets consist of the following:

| | December 31, 2002 ----- | |
|------------------------------------------|--------------------------------------|--------------------------------------|
| | Gross Carrying Amount ----- | Accumulated Amortization ----- |
| Amortized intangible assets: | | |
| Customer relationships..... | \$ 96,712 | \$ (12,725) |
| Patents and other intangible assets..... | 23,674 | (13,534) |
| Unamortized intangible assets: | | |
| Trademarks and tradenames..... | 86,144 ----- | -- ----- |
| | \$206,530 ===== | \$ (26,259) ===== |

Other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. The weighted average amortization period for intangible assets which are amortized is 22 years. Customer relationships are being amortized over 38 years. Patents and other intangible assets are being amortized over a weighted average life of 9 years. The trademarks and tradenames intangible asset has been determined to have an indefinite life and therefore is not amortized.

Amortization expense related to intangible assets which are subject to amortization totaled \$1,352 in the three months ended March 31, 2003 and \$1,789 in the three months ended March 31, 2002 and is included in selling and administrative expense on the consolidated condensed statement of income.

The estimated amortization expense for the year ending December 31, 2003 and for each of the five succeeding years is as follows:

| | Restated ----- |
|------|-------------------|
| 2003 | \$5,978 |

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| | |
|------|-------|
| 2004 | 5,579 |
| 2005 | 4,776 |
| 2006 | 4,366 |
| 2007 | 4,143 |
| 2008 | 3,934 |

Note 9 -- Guarantees

We provide service and warranty policies on certain of our products at the time of sale. Liability under service and warranty policies is based upon a review of historical warranty and service claim experience. Adjustments are made to accruals as claim data and historical experience warrant.

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The changes in the carrying amount of service and product warranties for the three months ended March 31, 2003 are as follows:

| | |
|------------------------------------|----------|
| Balance as of January 1, 2003..... | \$ 3,213 |
| Provision for warranties..... | 1,211 |
| Claims made..... | (1,100) |
| | ----- |
| Balance as of March 31, 2003 | \$ 3,324 |
| | ===== |

Note 10 - New Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," which updates, clarifies, and simplifies certain existing accounting pronouncements beginning at various dates in 2002 and 2003. This Statement rescinds SFAS 4 and SFAS 64, which required net gains or losses from the extinguishment of debt to be classified as an extraordinary item in the income statement. These gains and losses will now be classified as extraordinary only if they meet the criteria for such classification as outlined in Accounting Principles Board ("APB") Opinion 30, which allows for extraordinary treatment if the item is material and both unusual and infrequent in nature. We adopted this pronouncement during 2003. As a result we will reclassify the extraordinary loss recognized in the third quarter of 2002 related to the refinancing of debt to ordinary income in the 2003 annual and interim financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities. This Statement supersedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit and Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. This pronouncement has not had an impact on our financial condition or results of operations during 2003.

In November 2002, FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" was issued. The interpretation provides guidance on the guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others. We have adopted the disclosure requirements of the interpretation as of December 31, 2002. The accounting guidelines are applicable to guarantees issued after December 31, 2002 and

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require that we record a liability for the fair value of such guarantees in the balance sheet. FIN 45 has not had a material accounting impact on our financial condition or results of operations during 2003.

In January 2003, FIN No. 46, "Consolidation of Variable Interest Entities" was issued. The interpretation provides guidance on consolidating variable interest entities and applies immediately to variable interests created after January 31, 2003. The guidelines of the interpretation will become applicable for us in our third quarter 2003 financial statements for variable interest entities created before February 1, 2003. The interpretation requires variable interest entities to be consolidated if the equity investment at risk is not sufficient to permit an entity to finance its activities without support from other parties or the equity investors lack certain specified characteristics. We are reviewing FIN No. 46 to determine its impact, if any, on future reporting periods, and do not currently anticipate any material accounting or disclosure requirement under the provisions of the interpretation.

In April 2003, FAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" was issued. FAS No. 149 amends and clarifies financial accounting

and reporting for derivative instruments embedded in other contracts and for hedging activities under FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". FAS No. 149 will be applicable for us in our third quarter 2003. We are reviewing FAS No. 149 to determine its impact, if any, on future reporting periods, and do not currently anticipate any material accounting or disclosure requirement under the provisions of the statement.

Note 11 - Guarantor financial statements

Our senior credit agreement and Senior Subordinated Notes (the "Notes") are guaranteed (the "Subsidiary Guarantees") by each of our subsidiaries (the "Subsidiary Guarantors") except CONMED Receivables Corporation (the "Non-Guarantor Subsidiary"). The Subsidiary Guarantees provide that each Subsidiary Guarantor will fully and unconditionally guarantee our obligations under our senior credit agreement and the Notes on a joint and several basis. Each Subsidiary Guarantor and Non-Guarantor Subsidiary is wholly-owned by CONMED Corporation. The following supplemental financial information sets forth on a condensed consolidating basis, condensed consolidating balance sheets, statements of income and statements of cash flows for the Parent Company only, Subsidiary Guarantors and Non-Guarantor Subsidiary and for the Company as of December 31, 2002 and March 31, 2003 and for the three months ended March 31, 2002 and 2003.

CONMED CORPORATION
CONSOLIDATING CONDENSED BALANCE SHEET
December 31, 2002
(in thousands)

| Parent Company Only | Subsidiary Guarantors | Non- Guarantor Subsidiary | Eli |
|---------------------------|--------------------------|---------------------------------|-----|
|---------------------------|--------------------------|---------------------------------|-----|

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| | ----- | ----- | ----- | ----- |
|---------------------------------------------|------------|------------|----------|-------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 3,824 | \$ 1,516 | \$ 286 | \$ |
| Accounts receivable, net | 746 | 13,397 | 43,950 | |
| Inventories | 25,829 | 94,614 | -- | |
| Deferred income taxes | 6,210 | -- | 94 | |
| Prepaid expenses and other current assets | 823 | 2,377 | -- | |
| | ----- | ----- | ----- | |
| Total current assets | 37,432 | 111,904 | 44,330 | |
| | ----- | ----- | ----- | |
| Property, plant and equipment, net | 47,327 | 48,281 | -- | |
| Goodwill, net | 96,393 | 166,001 | -- | |
| Other intangible assets, net | 3,565 | 176,706 | -- | |
| Other assets | 498,111 | 2,406 | -- | |
| | ----- | ----- | ----- | |
| Total assets | \$ 682,828 | \$ 505,298 | \$44,330 | \$ |
| | ===== | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Current portion of long-term debt | \$ 1,284 | \$ 1,347 | \$ -- | \$ |
| Accounts payable | 4,907 | 17,167 | -- | |
| Accrued compensation | 4,052 | 6,411 | -- | |
| Income taxes payable | 5,885 | -- | -- | |
| Accrued interest | 3,733 | 36 | 25 | |
| Other current liabilities | 5,781 | 7,346 | -- | |
| | ----- | ----- | ----- | |
| Total current liabilities | 25,642 | 32,307 | 25 | |
| | ----- | ----- | ----- | |
| Long-term debt | 234,468 | 20,288 | -- | |
| Deferred income taxes | 28,446 | -- | -- | |
| Other long-term liabilities | 7,333 | 269,259 | 41,932 | |
| | ----- | ----- | ----- | |
| Total liabilities | 295,889 | 321,854 | 41,957 | |
| | ----- | ----- | ----- | |
| Shareholders' equity: | | | | |
| Preferred stock | -- | -- | -- | |
| Common stock | 288 | -- | -- | |
| Paid-in capital | 231,832 | -- | 2,000 | |
| Retained earnings | 162,391 | 184,603 | 373 | |
| Accumulated other comprehensive loss | (7,153) | (1,159) | -- | |
| Less common stock in treasury, at cost .. | (419) | -- | -- | |
| | ----- | ----- | ----- | |
| Total shareholders' equity | 386,939 | 183,444 | 2,373 | |
| | ----- | ----- | ----- | |
| Total liabilities and shareholders' equity | \$ 682,828 | \$ 505,298 | \$44,330 | \$ |
| | ===== | ===== | ===== | ===== |

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| | Parent Company Only ----- | Subsidiary Guarantors ----- | Non- Guarantor Subsidiary ----- | Eliminations ----- |
|--------------------------------------------------------|------------------------------------|-----------------------------------|------------------------------------------|-----------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 4,174 | \$ 1,791 | \$ 285 | \$ -- |
| Accounts receivable, net | -- | 16,607 | 43,650 | -- |
| Inventories | 27,073 | 98,849 | -- | -- |
| Deferred income taxes | 6,227 | -- | 94 | -- |
| Prepaid expenses and other current assets | 914 | 2,731 | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total current assets | 38,388 | 119,978 | 44,029 | -- |
| | ----- | ----- | ----- | ----- |
| Property, plant and equipment, net .. | 47,375 | 50,028 | -- | -- |
| Goodwill, net | 98,095 | 188,389 | -- | -- |
| Other intangible assets, net | 3,533 | 191,098 | -- | -- |
| Other assets | 540,928 | 2,431 | -- | (533,382) |
| | ----- | ----- | ----- | ----- |
| Total assets | \$ 728,319 | \$551,924 | \$44,029 | \$ (533,382) |
| | ===== | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Current portion of long-term debt | \$ 1,034 | \$ 1,353 | \$ -- | \$ -- |
| Accounts payable | 4,478 | 17,373 | -- | -- |
| Accrued compensation | 3,264 | 6,220 | -- | -- |
| Income taxes payable | 8,260 | -- | -- | -- |
| Accrued interest | 797 | 236 | 25 | -- |
| Other current liabilities | 4,848 | 10,184 | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total current liabilities ... | 22,681 | 35,366 | 25 | -- |
| | ----- | ----- | ----- | ----- |
| Long-term debt | 262,574 | 20,375 | -- | -- |
| Deferred income taxes | 38,426 | -- | -- | -- |
| Other long-term liabilities | 7,542 | 313,087 | 41,613 | (347,895) |
| | ----- | ----- | ----- | ----- |
| Total liabilities | 331,223 | 368,828 | 41,638 | (347,895) |
| | ----- | ----- | ----- | ----- |
| Shareholders' equity: | | | | |
| Preferred stock | -- | -- | -- | -- |
| Common stock | 290 | -- | -- | -- |
| Paid-in capital | 233,613 | -- | 2,000 | (2,000) |
| Retained earnings | 169,059 | 182,942 | 391 | (183,333) |
| Accumulated other comprehensive income (loss) | (5,447) | 154 | -- | (154) |
| Less common stock in treasury, at cost | (419) | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total shareholders' equity .. | 397,096 | 183,096 | 2,391 | (185,487) |
| | ----- | ----- | ----- | ----- |
| Total liabilities and shareholders' equity | \$ 728,319 | \$551,924 | \$44,029 | \$ (533,382) |
| | ===== | ===== | ===== | ===== |

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CONMED CORPORATION
CONSOLIDATING CONDENSED STATEMENT OF INCOME
Three Months Ended March 31, 2002
(in thousands)
(unaudited)

| | Parent Company Only | Subsidiary Guarantors | Non-Guarantor Subsidiary | Eliminations | Compa Tota |
|-----------------------------------------------------------------------------|---------------------------|--------------------------|-----------------------------|--------------|---------------|
| | ---- | ----- | ----- | ----- | ----- |
| Net sales | \$26,299 | \$ 86,906 | \$ -- | \$ -- | \$113, |
| Cost of sales | 14,003 | 40,101 | -- | -- | 54, |
| Gross profit | 12,296 | 46,805 | -- | -- | 59, |
| Selling and administrative | 7,447 | 27,355 | (334) | -- | 34, |
| Research and development | 429 | 3,395 | -- | -- | 3, |
| | 7,876 | 30,750 | (334) | -- | 38, |
| Income from operations | 4,420 | 16,055 | 334 | -- | 20, |
| Interest expense | -- | 6,308 | 320 | -- | 6, |
| Income before income taxes | 4,420 | 9,747 | 14 | -- | 14, |
| Provision for income taxes | 1,591 | 3,509 | 5 | -- | 5, |
| Income before equity in earnings of unconsolidated subsidiaries | 2,829 | 6,238 | 9 | -- | 9, |
| Equity in earnings of unconsolidated subsidiaries | 6,247 | -- | -- | (6,247) | |
| Net income | \$ 9,076 | \$ 6,238 | \$ 9 | \$ (6,247) | \$ 9, |
| | ===== | ===== | ===== | ===== | ===== |

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CONMED CORPORATION
CONSOLIDATING CONDENSED STATEMENT OF INCOME
Restated Three Months Ended March 31, 2003
(in thousands)

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(unaudited)

| | Parent Company Only ---- | Subsidiary Guarantors ----- | Non-Guarantor Subsidiary ----- | Eliminations ----- |
|------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|-----------------------|
| Net sales | \$ 29,135 | \$ 88,899 | \$ -- | \$ -- |
| Cost of sales | 16,058 | 40,320 | -- | -- |
| Gross profit | 13,077 | 48,579 | -- | -- |
| Selling and administrative | 7,933 | 29,455 | (243) | -- |
| Research and development | 481 | 3,222 | -- | -- |
| Write-off of purchased in-process research and development assets | -- | 7,900 | -- | -- |
| Other expense (income) | (8,324) | 832 | -- | -- |
| | 90 | 41,409 | (243) | -- |
| Income from operations | 12,987 | 7,170 | 243 | -- |
| Interest expense | -- | 5,322 | 216 | -- |
| Income before income taxes | 12,987 | 1,848 | 27 | -- |
| Provision for income taxes | 4,676 | 3,509 | 9 | -- |
| Income (loss) before equity in earnings of unconsolidated subsidiaries | 8,311 | (1,661) | 18 | -- |
| Equity in earnings (loss) of unconsolidated subsidiaries | (1,643) | -- | -- | 1,643 |
| Net income (loss) | \$ 6,668 | \$ (1,661) | \$ 18 | \$ 1,643 |

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CONMED CORPORATION
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
Three Months Ended March 31, 2002
(in thousands)
(unaudited)

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| | Parent Company Only ----- | Subsidiary Guarantors ----- | Non- Guarantor Subsidiary ----- | Elimi ----- |
|--------------------------------------------------------------------|------------------------------------|-----------------------------------|------------------------------------------|----------------|
| Net cash flows from operating activities | \$ 2,761 ----- | \$ 6,090 ----- | \$ 3,500 ----- | \$ ----- |
| Cash flows from investing activities: | | | | |
| Distributions from subsidiaries ... | 6,752 | -- | -- | (|
| Purchases of property, plant and equipment | (1,560) ----- | (1,648) ----- | -- ----- | -- ----- |
| Net cash provided (used) by investing activities ... | 5,192 ----- | (1,648) ----- | -- ----- | (----- |
| Cash flows from financing: | | | | |
| Distributions to parent | -- | (4,114) | -- | |
| Repayment on note payable to parent | -- | -- | (2,638) | |
| Net proceeds from exercise of stock options | 1,985 | -- | -- | |
| Payments on debt | (9,938) ----- | -- ----- | -- ----- | -- ----- |
| Net cash provided (used) by financing activities | (7,953) ----- | (4,114) ----- | (2,638) ----- | -- ----- |
| Effect of exchange rate changes on cash and cash equivalents | -- ----- | 42 ----- | -- ----- | -- ----- |
| Net increase (decrease) in cash and cash equivalents | -- | 370 | 862 | |
| Cash and cash equivalents at beginning of period | -- ----- | 1,181 ----- | 221 ----- | -- ----- |
| Cash and cash equivalents at end of period | \$ -- ===== | \$ 1,551 ===== | \$ 1,083 ===== | \$ ===== |

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CONMED CORPORATION
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
Three Months Ended March 31, 2003
(in thousands)
(unaudited)

| | Parent Company Only ----- | Subsidiary Guarantors ----- | Non- Guarantor Subsidiary ----- | El ----- |
|--|------------------------------------|-----------------------------------|------------------------------------------|-------------|
|--|------------------------------------|-----------------------------------|------------------------------------------|-------------|

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| | | | |
|-------------------------------------------|-----------|----------|--------|
| Net cash provided by operating activities | \$ 11,059 | \$ 9,101 | \$ 318 |
| | ----- | ----- | ----- |
| Cash flows from investing activities: | | | |
| Distributions to subsidiaries | (36,881) | -- | -- |
| Payments related to business | | | |
| acquisitions, net of cash acquired | (1,678) | (46,499) | -- |
| Purchases of property, plant and | | | |
| equipment | (907) | (803) | -- |
| | ----- | ----- | ----- |
| Net cash provided (used) | | | |
| by investing activities | (39,466) | (47,302) | -- |
| | ----- | ----- | ----- |
| Cash flows from financing: | | | |
| Net distributions to parent | -- | 37,200 | -- |
| Borrowings on note payable to parent | -- | -- | (319) |
| Net proceeds from exercise | | | |
| of stock options | 808 | -- | -- |
| Payments on debt | (3,051) | -- | -- |
| Proceeds of debt | 31,000 | -- | -- |
| | ----- | ----- | ----- |
| Net cash provided (used) by | | | |
| financing activities | 28,757 | 37,200 | (319) |
| | ----- | ----- | ----- |
| Effect of exchange rate changes on cash | | | |
| and cash equivalents | -- | 1,276 | -- |
| | ----- | ----- | ----- |
| Net increase (decrease) in cash | | | |
| and cash equivalents | 350 | 275 | (1) |
| Cash and cash equivalents | | | |
| at beginning of period | 3,824 | 1,516 | 286 |
| | ----- | ----- | ----- |
| Cash and cash equivalents | | | |
| at end of period | \$ 4,174 | \$ 1,791 | \$ 285 |
| | ===== | ===== | ===== |

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements Made in this Form 10-Q/A

In this Form 10-Q/A, 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

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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" in our Annual Report on Form 10-K for the year-ended December 31, 2002 and the following, among others:

- o general economic and business conditions;
- o cyclical customer purchasing patterns due to budgetary and other constraints;
- o changes in customer preferences;
- o competition;
- o changes in technology;
- o our ability to manufacture product consistently and in a timely manner, especially those products involving delicate or complex manufacturing processes;
- o the introduction and acceptance of new products, including our PowerPro(R) battery-powered instrument product line;
- o the success of our distribution arrangement with DePuy Orthopaedics;
- o the integration of any acquisition, including the Bionx acquisition;
- o changes in business strategy;
- o the possibility that United States or foreign regulatory and/or administrative agencies might initiate enforcement actions against us or our distributors;
- o our indebtedness;
- o quality of our management and business abilities and the judgment of our personnel;
- o the risk of litigation, especially patent litigation as well as the cost associated with patent and other litigation;
- o changes in regulatory requirements; and
- o the availability, terms and deployment of capital.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" below and "Business" in our Annual Report on Form 10-K for the year-ended December 31, 2002 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 Form 10-Q/A or to reflect the occurrence of unanticipated events.

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Restatement

The purpose of the restatement described below is to reflect in our consolidated condensed financial statements for the quarter ended March 31, 2003, the purchase price allocation of our March 10, 2003 acquisition of Bionx Implants, Inc. (the "Bionx acquisition"). The purchase price allocation was arrived at with the assistance of a third party valuation. The impact of the restatement on the consolidated condensed statement of income for the quarter ended March 31, 2003, is to recognize expense of \$7.9 million to write-off the purchased in-process research and development assets acquired as a result of the Bionx acquisition. No benefit for income taxes has been recorded on the write-off of the purchased in-process research and development assets as these costs are not deductible for income tax purposes.

A summary of the impact of the restatement on the consolidated condensed statement of income for the three months ended March 31, 2003 is as follows:

| | As Previously Reported | Adjustment | As Restated |
|------------------------------------------------------------------------------------------|------------------------------|------------|----------------|
| Consolidated Condensed Statement of Income Data For the Quarter Ended March 31, 2003: | | | |
| Write-off of purchased in-process research and development assets | \$ -- | \$ 7,900 | \$ 7,900 |
| Income from operations | 28,300 | (7,900) | 20,400 |
| Income before income taxes | 22,762 | (7,900) | 14,862 |
| Net income | \$14,568 | \$(7,900) | \$ 6,668 |
| Net income per share: | | | |
| Basic | \$.50 | \$ (.27) | \$.23 |
| Diluted | .50 | (.27) | .23 |

The impact of the restatement on the consolidated condensed balance sheets, apart from the in-process research and development write-off, is the reclassification of a portion of the purchase price from goodwill to inventory, property, plant and equipment and other intangible assets as shown above. We have also recognized a deferred income tax liability based on the difference between the financial statement and tax basis of assets and liabilities acquired as a result of the Bionx acquisition. A summary of the impact of the restatement on the consolidated condensed balance sheet at March 31, 2003 is as follows:

| | As Previously Reported ----- | Adjustment ----- | As Restated ----- |
|-------------------------------------------|---------------------------------------|---------------------|-------------------------|
| Consolidated Condensed Balance Sheet Data | | | |

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As of March 31, 2003:

| | | | |
|------------------------------------------|-----------|------------|-----------|
| Inventories | \$125,721 | \$ 201 | \$125,922 |
| Property, plant and equipment, net | 96,326 | 1,077 | 97,403 |
| Goodwill | 304,530 | (18,046) | 286,484 |
| Other intangible assets, net | 180,209 | 14,422 | 194,631 |
| Total assets | \$793,236 | (2,346) | \$790,890 |
| | | | |
| Deferred income taxes | \$ 32,872 | \$ 5,554 | \$ 38,426 |
| Total liabilities | \$388,240 | \$ 5,554 | \$393,794 |
| | | | |
| Retained earnings | \$176,959 | \$ (7,900) | \$169,059 |
| Total shareholders' equity | \$404,996 | \$ (7,900) | \$397,096 |

The impact of the restatement on the consolidated condensed statement of cash flows is to reduce net income by the \$7.9 million write-off of the purchased in-process research and development assets and increase non-cash expense related to the write-off by \$7.9 million. The restatement had no effect on net cash provided by operating activities for the three months ended March 31, 2003. A summary of the impact of the restatement on the consolidated condensed statement of cash flows for the three months ended March 31, 2003 is as follows:

| | As Previously Reported ----- | Adjustment ----- | As Restated ----- |
|------------------------------------------------------------------------------|---------------------------------------|---------------------|-------------------------|
| Consolidated Condensed Statement of Cash Flows Data as of March 31, 2003: | | | |
| Net income | \$14,568 | \$ (7,900) | \$ 6,668 |
| Write-off of purchased in-process research and development assets | -- | 7,900 | 7,900 |
| Net cash provided by operating activities | \$20,478 | \$ -- | \$20,478 |

The Bionx acquisition and the related purchased in-process research and development write-off are described more fully in Note 6 to the consolidated condensed financial statements.

Critical Accounting Estimates

Preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the consolidated financial statements in our Annual Report on Form 10K for the year-ended December 31, 2002 describes the significant accounting policies used in preparation of the consolidated financial statements. The most significant areas involving management judgments and estimates are described below and are considered by management to be critical to understanding the financial condition and results of operations of CONMED Corporation.

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We recognize revenue upon shipment of product and passage of title to our customers. Factors considered in our revenue recognition policy are as follows:

- o Sales to customers are evidenced by firm purchase orders. Title and the risks and rewards of ownership are transferred to the customer when product is shipped.
- o Payment by the customer is due under fixed payment terms. Even when the sale is to a distributor, payment to us is not contractually or implicitly delayed until the product is resold by the distributor.
- o We place certain of our capital equipment with customers in return for commitments to purchase disposable products over time periods generally ranging from one to three years. In these circumstances, no revenue is recognized upon capital shipment and we recognize revenue upon the disposable product shipment.
- o Product returns are only accepted at the discretion of the Company and in keeping with our "Returned Goods Policy". Product returns have not been significant historically. We accrue for sales returns, rebates and allowances based upon analysis of historical data.
- o The terms of the Company's sales to customers do not involve any obligations for the Company to perform future services. Limited warranties are generally provided for capital equipment sales and provisions for warranty are provided at the time of product shipment.
- o Amounts billed to customers related to shipping and handling are included in net sales. Shipping and handling costs are included in selling and administrative expense.
- o We sell to a diversified base of customers around the world and, therefore, believe there is no material concentration of credit risk.
- o 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 \$1.0 million at March 31, 2003 is adequate to provide for any probable losses from accounts receivable.

Business Acquisitions

We completed the Bionx acquisition in 2003 with a purchase price of \$47.0 million and have a history of growth through acquisitions. The assets and liabilities of acquired businesses are recorded under the purchase method at their estimated fair values at the dates of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. We have accumulated goodwill of \$286.5 million and other intangible assets of \$194.6 million at March 31, 2003.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," ("SFAS 142"), goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment testing. The identification and measurement of goodwill impairment involves the estimation of the fair value of our business. The estimates of fair value are based on the best information available as of the

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date of the assessment, which primarily incorporate management assumptions about expected future cash flows and contemplate

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other valuation techniques. Future cash flows can be affected by changes in industry or market conditions or the rate and extent to which anticipated synergies or cost savings are realized with newly acquired entities. Intangible assets with a finite life are amortized over the estimated useful life of the asset. Intangible assets which continue to be subject to amortization are also evaluated on an annual basis to determine whether events and circumstances warrant a revision to the remaining period of amortization. An intangible asset is determined to be impaired when estimated future cash flows indicate the carrying amount of the asset may not be recoverable. Although no goodwill or other intangible asset impairment has been recorded to date, there can be no assurances that future impairment will not occur.

In connection with the Bionx acquisition, significant estimates were made in the valuation of the purchased in-process research and development assets. The aggregate purchased in-process research and development value relates to next generation sports medicine and orthopedic products, which are expected to be released between the second quarter of 2003 and fourth quarter of 2004. The acquired projects include enhancements and upgrades to existing device technology, introduction of new device functionality and the development of new materials technology for sports medicine and orthopedic applications.

The value of the in-process research and development was calculated using a discounted cash flow analysis of the anticipated net cash flow stream associated with the in-process technology of the related product sales. The estimated net cash flows were discounted using a discount rate of 22%, which was based on the weighted-average cost of capital for publicly-traded companies within the medical device industry and adjusted for the stage of completion of each of the in-process research and development projects. The risk and return considerations surrounding the stage of completion were based on costs, man-hours and complexity of the work completed versus to be completed and other risks associated with achieving technological feasibility. In total, these projects were approximately 40% complete as of the acquisition date. The total budgeted costs for the projects were approximately \$5.5 million and the remaining costs to complete these projects were approximately \$3.3 million as of the acquisition date.

The major risks and uncertainties associated with the timely and successful completion of these projects consist of the ability to confirm the safety and efficacy of the technologies and products based on the data from clinical trials and obtaining the necessary regulatory approvals. In addition, no assurance can be given that the underlying assumptions used to forecast the cash flows or the timely and successful completion of such projects will materialize, as estimated. For these reasons, among others, actual results may vary significantly from the estimated results.

Pension Plans

We sponsor defined benefit pension plans for the Company and its subsidiaries. Major assumptions used in the accounting for these plans include the discount rate, expected return on plan assets and rate of increase in employee compensation levels. Assumptions are determined based on Company data and appropriate market indicators, and are evaluated each year as of the plans' measurement date. A change in any of these assumptions would have an effect on net periodic pension costs reported in the consolidated financial statements.

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Lower market interest rates and plan asset returns have resulted in declines in pension plan asset performance and funded status and higher pension expense. The discount rate used in determining pension expense in 2003 is 6.75%.

Income Taxes

The recorded future tax benefit arising from net deductible temporary differences and tax carryforwards is approximately \$11.0 million at March 31, 2003. Management believes that our earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future income tax benefits.

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In assessing the need for a valuation allowance, we estimate future taxable income, considering the feasibility of ongoing tax planning strategies and the realizability of tax loss carryforwards. Valuation allowances related to deferred tax assets can be impacted by changes to tax laws, changes to statutory tax rates and future taxable income levels. In the event we were to determine that we would not be able to realize all or a portion of our deferred tax assets in the future, we would reduce such amounts through a charge to income in the period that such determination was made.

Results of Operations

Three months ended March 31, 2003 compared to three months ended March 31, 2002

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 March 2002 ----- (unaudited) |
|---------------------------------|-------------------------------------------------------|
| Net sales..... | 100.0% |
| Cost of sales..... | 47.8 ----- |
| Gross profit..... | 52.2 |
| Selling and administrative..... | 30.4 |
| Research and development..... | 3.4 |
| In-process R & D write-off..... | -- |
| Other expense (income)..... | -- ----- |
| Income from operations..... | 18.4 |
| Interest expense..... | 5.9 ----- |
| Income before income taxes..... | 12.5 |
| Provision for income taxes..... | 4.5 ----- |
| Net income..... | 8.0% ===== |

Sales for the quarter ended March 31, 2003 were \$118.0 million, an increase of 4.2% compared to sales of \$113.2 million in the same quarter a year ago.

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Favorable changes in foreign currency exchange rates accounted for 2.2% of our sales growth.

- o Sales in our orthopedic businesses increased 4.3% to \$72.7 million from \$69.7 million in the comparable quarter last year.
- o Arthroscopy sales, which represented approximately 57.4% of total first quarter 2003 orthopedic revenues, grew 1.0% to \$41.7 million from \$41.3 million in the same period a year ago as sales of imaging systems improved while sales of procedure specific and fluid management products were slightly less than the same period a year ago.
- o Powered surgical instrument sales, which represented approximately 42.6% of orthopedic revenues, increased 9.2% to \$31.0 million from \$28.4 million in the same quarter last year on the strength of our PowerPro(R) battery powered instrument product line.
- o Patient care sales for the three months ended March 31, 2003 were \$17.3 million, flat when compared to the same period a year ago as increases in sales of our automatic defibrillator pad and certain other products were offset by decreases in the suction instrument product lines.

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- o Electrosurgery sales for the three months ended March 31, 2003 were \$16.8 million, flat when compared to the first quarter of last year, as declines in sales of electrosurgical generators offset gains in sales of disposables when compared with the same period a year ago.
- o Sales of endoscopy products increased 13.8% to \$10.7 million in the three months ended March 31, 2003 from \$9.4 million in the same period a year ago as a result of the CORE acquisition.

Cost of sales increased to \$56.4 million in the first quarter 2003 as compared to \$54.1 million in the same quarter a year ago, primarily as a result of the increased sales volumes described above while gross margin percentage remained at 52.2% in the first quarter of 2003, the same as in the first quarter of 2002. Included in cost of sales during the quarter ended March 31, 2003 were approximately \$.4 million in acquisition-related costs.

Selling and administrative expense increased to \$37.1 million in the first quarter of 2003 as compared to \$34.5 million in the first quarter of 2002. As a percentage of sales, selling and administrative expense totaled 31.5% in the first quarter of 2003 compared to 30.4% in the first quarter of 2002. The increase in selling and administrative expense as a percentage of sales is due principally to increased marketing costs associated with recently launched product lines including the integrated operating room systems product lines, PowerPro(R), and new electrosurgical generators.

Research and development expense decreased to \$3.7 million in the first quarter of 2003 as compared to \$3.8 million in the first quarter of 2002. As a percentage of sales, research and development expense also decreased to 3.1% in the current quarter compared to 3.4% in the same quarter a year ago but remains within the range of our historical percentages.

As discussed in Note 6 to the consolidated condensed financial statements, we wrote off purchased in-process research and development assets in connection with the Bionx acquisition of \$7.9 million in the first quarter of 2003.

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As discussed in Note 7 to the consolidated condensed financial statements, other expense (income) is comprised of a net gain on settlement of a contractual dispute of \$9.0 million offset by other acquisition-related costs of \$1.3 million and the loss of \$.2 million on the early extinguishment of debt. There was no other expense (income) in the comparable quarter in 2002.

Interest expense in the first quarter of 2003 was \$5.5 million compared to \$6.6 million in the first quarter of 2002. The decrease in interest expense is primarily a result of lower total borrowings outstanding during the current quarter as compared to the same period a year ago, as borrowings have declined to \$285.3 million at March 31, 2003 as compared to \$326.0 million at March 31, 2002. Additionally, the weighted average interest rates on our borrowings has declined to 5.91% at March 31, 2003 as compared to 6.25% at March 31, 2002.

Provision for income taxes has been recorded at an effective rate of 55% for the first quarter 2003 and 36% for the first quarter 2002. The effective rate of 55% for the first quarter 2003 is substantially higher than the 36% which we have experienced historically as a result of the non-deductibility for income tax purposes of the \$7.9 million in-process research and development write-off recorded in the first quarter 2003 in conjunction with the Bionx acquisition. A reconciliation of the United States statutory income tax rate of 35% to our historical effective tax rate of 36% (excluding the effect of the in-process research and development write-off) is included in Note 7 to the Company's financial statements for the year ended December 31, 2002 included in our Annual Report to the Securities and Exchange Commission on Form 10-K.

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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:

- o borrowings under our senior credit agreement;
- o Senior Subordinated Notes issued to refinance borrowings under our senior credit agreement, in the case of the acquisition of Linvatec Corporation in 1997;
- o borrowings under separate loan facilities, in the case of real property acquisitions, to finance our acquisitions.

The senior credit agreement consists of a \$100 million term loan and a \$100 million revolving credit facility of which \$99.5 million and \$36.0 million, respectively, was outstanding at March 31, 2003. The weighted average interest rates at March 31, 2003 on the term loan and revolving credit facility were 4.09% and 5.75%, respectively.

The Senior Subordinated Notes (the "Notes") are in aggregate principal amount outstanding at March 31, 2003, of \$127.4 million, have a maturity date of March 15, 2008 and bear interest at 9.0% per annum which is payable semi-annually. The Notes are redeemable for cash at anytime on or after March 15, 2003, at our option, in whole or in part, at the redemption prices set forth therein, plus accrued and unpaid interest to the date of redemption. During the quarter ended March 31, 2003, we purchased \$2.6 million of our Notes at 104.5% and recorded expense of \$.2 million in premium and unamortized deferred financing costs as discussed in Note 7 to the consolidated condensed financial statements. On March

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12, 2003, we served notice to the trustee for the Notes that we would redeem \$15.0 million par value of the Notes, on May 1, 2003, at the redemption price of 104.5%, for a total redemption price of \$15.7 million, plus accrued and unpaid interest. We redeemed those Notes on May 1, 2003 through borrowings under our revolving credit facility. The premium paid on the Notes will be recorded as a charge to operating income in the second quarter of 2003. Although the outstanding Notes do not mature until 2008, we continue to review alternatives for redeeming the remaining outstanding Notes, including the addition of a term loan tranche under the senior credit agreement to redeem all outstanding Notes at the applicable redemption price.

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%, a Class C note bearing interest at 8.25% and a seller-financed note bearing interest at 6.50%. The principal balances outstanding on the Class A note, Class C note and seller-financed note aggregate \$10.7 million, \$7.1 million and \$3.9 million, respectively, at March 31, 2003. These loans are secured by our Largo, Florida property.

We have 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 of CONMED Corporation. 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"). As of December 31, 2002 and March 31, 2003, the undivided percentage ownership interest in receivables sold by CRC to the conduit purchaser aggregated \$37.0 million, which has been accounted for as a sale and reflected in the balance sheet as a reduction in accounts receivable.

Our net working capital position was \$144.3 million at March 31, 2003. Net cash provided by operations increased to \$20.5 million in the three months ended March 31,

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2003 compared to \$12.4 million for the same period a year ago, principally as a result of the \$9.0 million gain on the settlement of a contractual dispute discussed in Note 7 to the consolidated financial statements.

Net cash provided by operations in the first quarter of 2003 was positively impacted by depreciation, amortization, the non-cash write-off of purchased in-process research and development and increases in income taxes payable and deferred income taxes and negatively impacted primarily by increases in inventory and decreases in accounts payable, accrued compensation and accrued interest. The increase in inventory is a result of the Bionx acquisition discussed in Note 6 to the consolidated condensed financial statements. The increases in income taxes payable and deferred income taxes and decreases in accounts payable, accrued compensation and accrued interest are primarily related to the timing of the payment of these liabilities.

Capital expenditures in the three months ended March 31, 2003 were \$1.7 million compared to \$3.2 million in the same period a year ago. 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 the three months ended March 31, 2003 also included \$48.2 million in payments related to business acquisitions, net of cash acquired, of which \$46.5 million related to the Bionx acquisition and the remainder related to the CORE acquisition as discussed in Note 6 to the consolidated condensed financial statements.

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Financing activities in the three months ended March 31, 2003 consisted of payments on our debt of \$3.1 million and borrowings on our revolving credit facility of \$31.0 million in order to finance the Bionx acquisition. Proceeds from the exercise of stock options in the three months ended March 31, 2003 totaled \$.8 million.

Management believes that cash generated from operations, our current cash resources and funds available under our new senior credit agreement 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, 2003. The following table summarizes our contractual obligations related to operating leases and long-term debt as of March 31, 2003:

| | (Amounts in thousands) | | | |
|-----------------------------------------|------------------------|----------|----------|----------|
| | 2003 | 2004 | 2005 | 2006 |
| | ---- | ---- | ---- | ---- |
| Long-term debt..... | \$ 2,072 | \$ 2,554 | \$ 2,741 | \$ 2,943 |
| Operating lease obligations..... | 1,783 | 1,589 | 1,310 | 1,238 |
| | ----- | ----- | ----- | ----- |
| Total contractual cash obligations..... | \$ 3,855 | \$ 4,143 | \$ 4,051 | \$ 4,182 |
| | ===== | ===== | ===== | ===== |

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no significant change in our exposures to market risk during the three months ended March 31, 2003. For a detailed discussion of market risk, see our Annual Report on Form 10K for the year-ended December 31, 2002, Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk.

Item 4. Controls and Procedures

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, provided, however, that, as a result of the required restatement, procedures have been implemented to ensure in the future, a preliminary allocation of purchase price will be made in the quarter in which the applicable acquisition is made.

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

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List of Exhibits

| Exhibit No. | Description of Exhibit |
|-------------|------------------------------------------------------------------------------------------------------------------------|
| 31.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

Reports on Form 8-K

On April 29, 2003, the Company filed a Report on Form 8-K furnishing as Exhibit 99.1 under Item 7, an April 24, 2003 press release announcing first quarter results.

On May 1, 2003, the Company filed a Report on Form 8-K under Item 5, a supplement to the discussion under Liquidity and Capital Resources included in our Form 10-K for the year-ended December 31, 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CONMED CORPORATION
(Registrant)

Date: August 11, 2003

/s/ Robert D. Shallish, Jr.

Robert D. Shallish, Jr.
Vice President - Finance
(Principal Financial Officer)

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Exhibit Index

| Exhibit | | Sequential Page Number |
|---------|------------------------------------------------------------------------------------------------------------------------|---------------------------|
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| 31.2 | Certification pursuant to 18 U.S.C. Section | |

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| | | |
|------|------------------------------------------------------------------------------------------------------------------------|-----|
| | 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | E-2 |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | E-3 |