Securities and Exchange Commission
Washington, D.C.
20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

For the fiscal year ended December 31, 1998 Commission file number 0-16093

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 No.)
310 Broad Street, Utica, New York	13501
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (315) 797-8375

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.01 par value
(Title of class)

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 x No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K.

The aggregate market value of the shares of the voting stock held by non-affiliates of the Registrant was approximately $444,667,984 based upon the average bid and asked prices of stock, which was $29.75 on March 12, 1999.

The number of shares of the Registrant's $0.01 par value common stock outstanding as of March 12, 1999 was 15,189,048.

DOCUMENTS FROM WHICH INFORMATION IS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement, scheduled to be mailed on or about April 9, 1999 for the annual meeting of stockholders to be held May 18, 1999, are incorporated by reference into Part III.

CONMED CORPORATION

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PART I

CONMED CORPORATION

Item 1. Business

Forward Looking Statements

This Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1998 ("Form 10-K") contains certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) and information relating to CONMED Corporation ("CONMED" or the "Company"--references to "CONMED" or the "Company" shall be deemed to include the Company's subsidiaries) that is based on the beliefs of the management of the Company, as well as assumptions made by and information currently available to the management of the Company. When used in this Form 10-K, the words "estimate," "project," "believe," "anticipate," "intend," "expect" and similar expressions are intended to identify forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors, including those identified under the caption "Item 1: Business -- Risk Factors" and elsewhere in this Form 10-K that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions; changes in customer preferences; competition; changes in technology; the integration of any acquisition; changes in business strategy; the indebtedness of the Company; quality of management, business abilities and judgment of the Company's personnel; the availability, terms and deployment of capital; and various other factors referenced in this Form 10-K. See "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 1: Business." Readers are cautioned not to place undue

reliance on these forward-looking statements, which speak only as of the date hereof. The Company does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

General

The Company is a leading developer, manufacturer and supplier of a broad range of medical instruments and systems used in orthopaedics, general surgery and other medical procedures. The Company's product offerings include arthroscopic surgery devices and products, electrosurgical systems, powered instruments for orthopaedic, arthroscopic and other surgical procedures, imaging products for minimally-invasive surgery, electrocardiogram ("ECG") electrodes and other general surgical and patient care devices. The Company's products are used in a variety of clinical settings, such as operating rooms, surgery centers, physicians' offices and critical care areas of hospitals. Approximately 75% of the Company's revenues in 1998 were derived from the sale of single-use, disposable products. In addition, approximately 21% of the Company's revenues in 1998 were derived from sales outside of the United States.

The Company has used strategic business acquisitions to broaden its product offerings, to increase its market share in certain product lines and to realize economies of scale. During the last five years, the Company has completed six significant business acquisitions. The completed acquisitions, together with internal growth, have resulted in a compound annual growth rate in net sales of 55% between 1994 and 1998.

The Company was founded in 1970 by Eugene R. Corasanti, the Company's Chairman of the Board, Chief Executive Officer and President. The Company's principal offices are located at 310 Broad Street, Utica, New York 13501, and the Company's telephone number is (315) 797-8375.

Industry

The number of surgical procedures performed in the United States is increasing. According to SMG Marketing Group, the total number of U.S. surgical procedures was approximately 32 million in 1996, and, according to SMG Marketing Group, is expected to increase to 36 million in 2001. In addition, the number of outpatient surgical procedures performed in the United States increased at a compound annual growth rate of 7% from 16 million in 1991 to 20 million in 1995 and, according to SMG Marketing Group, is projected to grow at a compound annual growth rate of 6% to 29 million in 2001. 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. These less invasive surgical procedures are increasingly being performed in outpatient surgical centers and physician offices rather than in hospitals. According to SMG Marketing Group, outpatient surgery centers and physician offices represented 15% and 10%, respectively, of the total surgeries performed in 1996, and, according to SMG Marketing Group, are projected to increase to 19% and 15%, respectively, in 2001.

In response to rising health care costs, managed care companies and other payors have placed pressures on health care providers to reduce costs. As a result, health care providers have focused on the high cost areas such as surgery, both operative and recovery. To reduce costs, health care providers use minimally-invasive techniques, which generally reduce patient trauma, recovery time and ultimately the length of hospitalization. According to Dorland's Biomedical, the total number of minimally-invasive surgical procedures performed in the United States increased at a compound annual growth rate of 14%, from 1.8 million in 1990 to an estimated 3.9 million in 1996.

In addition, health care providers are 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.

Furthermore, 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, who offer a broader array of products at lower prices. In addition, many health care providers have aligned themselves with group purchasing organizations ("GPOs"). GPOs aggregate the purchasing volume of their members in order to negotiate competitive pricing with suppliers, including manufacturers of surgical products. The Company believes that these trends will favor entities that offer a broad product portfolio.

The Company believes that foreign markets offer growth opportunities for manufacturers of surgical products. As economic conditions improve in developing countries, expenditures on health care are expected to rise; according to Dorland's Biomedical, expenditures on surgical products in developing countries increased 15% from $14 billion in 1995 to $16 billion in 1996 and are projected to grow at a compounded growth rate of 17% to $65 billion in 2005.

Competitive Strengths

The Company attributes its strong position in certain markets to the following competitive factors:

Leading Market Position in Key Product Areas. The Company is a leading provider of arthroscopic surgery devices, electrosurgical systems, powered surgical instruments and ECG electrodes. The Company's product breadth has enhanced its ability to market its products to surgeons, hospitals, surgery centers, GPOs and other customers, particularly as institutions seek to reduce costs and to minimize the number of suppliers. In addition, many of the Company's products are sold under leading brand names, including CONMED(R), Linvatec(R), Aspen Labs(R) and Hall(R) Surgical.

Broad Product Offering in Key Product Areas. The Company offers a broad product line in its key product areas. For example, the Company offers 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. The Company's product offerings have enabled it to meet a wide range of customer requirements and preferences. In addition, the Company's customers are increasingly dealing with fewer vendors and demanding a broader product offering from vendors in order to reduce administrative costs.

Marketing and Distribution Network. The Company's national sales force consists of approximately 200 sales representatives who seek to maintain close relationships with end-users. The Company's sales representatives are trained and educated in the applications for the products they sell and call directly on surgeons, hospital departments, outpatient surgery centers and physician offices. Additionally, through the December 31, 1997 acquisition of Linvatec Corporation from Bristol-Myers Squibb Company ("BMS"), the Company has expanded its international presence through sales subsidiaries and branches located in key international markets. The Company also maintains distributor relationships domestically and in numerous countries worldwide.

Vertically-integrated Manufacturing. The Company manufactures most of its products. The Company's vertically integrated manufacturing process has allowed it 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. The Company believes that its manufacturing capabilities allow it to contain costs, control quality and maintain security of proprietary processes. The Company continually evaluates its manufacturing processes with the objective of increasing automation, streamlining production and enhancing efficiency in order to achieve cost savings.

Research and Development Capabilities. CONMED has utilized its research and development capabilities to introduce new products, product enhancements and new technologies. Research and development expenditures were $12.0 million in

1998. Recent new product introductions include the E9000(R) drive console, BioStinger(R) miniscal repair device, Vcare(R) (a product for laparoscopic hysterectomy procedures), Hyfrecator(R) 2000 office-based electrosurgical unit and System 7500 electrosurgical unit with argon beam coagulation.

Integrating Acquisitions. Since 1994, the Company has completed six acquisitions including the 1998 acquisition of Linvatec which more than doubled the size of the Company. These acquisitions have enabled the Company to broaden its product categories, expand its sales and distribution capabilities and increase its international presence. The Company's management team has demonstrated a historical ability to identify complementary acquisitions and to integrate acquired companies into the Company's operations.

Business Strategy

The Company intends to implement the following business strategies:

Introduce New Products and Product Enhancements. The Company's research and development program is focused on the development of new surgical products, as well as the enhancement of existing products. In addition to its own research and development, the Company benefits from the dialogue and suggestions for product innovations from its relationships with surgeons and other users of the Company's products.

Realize Manufacturing and Operating Efficiencies. The Company expects to continue to review opportunities for consolidating product lines and streamlining production. The Company believes its vertically integrated manufacturing process should produce further opportunities to reduce overhead and to increase operating efficiencies and capacity utilization.

Increase International Sales. The Company believes there are significant sales opportunities for its surgical products outside the United States. The Linvatec acquisition increased the Company's access to international markets. The Company intends to seek to expand its international presence and increase its penetration into international markets by utilizing Linvatec's relationships with foreign surgeons, hospitals and third-party payers, as well as foreign distributors. The Company also intends to utilize Linvatec's sales relationships to introduce Linvatec's customers to CONMED's products.

Provide Broad Product Offering in Key Product Areas. As a result of competitive pressures in the health care industry, many health care providers have aligned themselves with GPOs, which are increasingly dealing with fewer vendors and demanding a broader product offering from their vendors in order to reduce administrative costs. The Company believes that its broad product line is a positive factor in the Company's efforts to meet such demands. In addition, the Company has a corporate sales department that markets the Company's broad product offering to GPOs.

Pursue Strategic Acquisitions. The Company believes that strategic acquisitions represent a cost-effective means of broadening its product line. The Company has historically targeted companies with proven technologies, established brand names and a significant portion of sales from single-use, disposable products. Since 1994, the Company has completed six acquisitions, expanding its product line to include surgical suction instruments, wound care products and most recently arthroscopic products and powered surgical instruments.

Risk Factors

Investors should carefully consider the specific factors set forth below as well as the other information included or incorporated by reference in this Form 10-K. See "Item 1: Business -- Forward Looking Statements" relating to certain forward-looking statements in this Form 10-K.

Significant Leverage and Debt Service

The Company has indebtedness which is substantial in relation to its

shareholders' equity, as well as interest and debt service requirements that are significant compared to its cash flow from operations. As of December 31, 1998, the Company had $384.9 million of debt outstanding, which represented 67.9% of total capitalization. In addition, on December 31, 1998, the Company had approximately $62.0 million available for borrowing under the revolving portion of the Company's principal bank credit agreement (the "Credit Facility").

The degree to which the Company is leveraged could have important consequences to investors, including but not limited to the following: (i) a substantial portion of the Company's cash flow from operations must be dedicated to debt service and will not be available for operations, capital expenditures, acquisitions and other purposes; (ii) the Company's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or general corporate purposes may be limited or impaired; and (iii) certain of the Company's borrowings, including its borrowings under the Credit Facility, are and will continue to be at variable rates of interest, which exposes the Company to the risk of increased interest rates.

The Company's ability to satisfy its obligations will depend upon the Company's future operating performance, which will be affected by the Company's ability to effectively integrate acquired businesses with the Company's operations and by prevailing economic conditions and financial, business and other factors, many of which are beyond the Company's control. There can be no assurance that the Company's operating results will be sufficient for the Company to meet its obligations. If the Company is unable to service its indebtedness, it will be forced to adopt an alternative strategy that may include actions such as forgoing acquisitions, reducing or delaying capital expenditures, selling assets, restructuring or refinancing its indebtedness or seeking additional equity capital. There can be no assurance that any of these strategies could be implemented on terms acceptable to the Company, if at all. See "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

Effects of Acquisitions Generally

An element of the Company's business strategy has been to expand through acquisitions and the Company may seek to pursue acquisitions in the future. The success of the Company is dependent in part upon its ability to effectively integrate acquired operations with the Company's operations. While the Company believes that it has sufficient management and other resources to accomplish the integration of its past and future acquisitions, there can be no assurance in this regard or that the Company will not experience difficulties with customers, suppliers, distributors, personnel or others. In addition, there can be no assurance that the Company will be able to identify and make acquisitions on acceptable terms or that the Company will be able to obtain financing for such acquisitions on acceptable terms. In addition, the financial performance of the Company is now and will continue to be subject to various risks associated with the acquisition of businesses, including the financial effects associated with the integration of such businesses.

Limitations Imposed by Certain Indebtedness

The Credit Facility contains certain restrictive covenants which will affect, and in many respects significantly limit or prohibit, among other things, the ability of CONMED and its subsidiaries to incur indebtedness, make prepayments of certain indebtedness, make investments, engage in transactions with affiliates, sell assets, engage in mergers and acquisitions and realize important elements of its business strategy. The Credit Facility also requires the Company to meet certain financial ratios and tests. These covenants may prevent the Company from integrating its acquired businesses, pursuing acquisitions, significantly limit the operating and financial flexibility of the Company and limit its ability to respond to changes in its business or competitive activities. The ability of the Company to comply with such provisions may be affected by events beyond its control. In the event of any default under the Credit Facility, the Credit Facility lenders could elect to declare all amounts borrowed under the Credit Facility, together with accrued interest, to be due and payable. If the Company were unable to repay such borrowings, the lenders thereunder could proceed against the collateral securing the Credit Facility, which consists of substantially all of the property and

assets of CONMED and its subsidiaries.

Significant Competition and Other Market Considerations

The market for the Company's products is highly competitive. Many of these competitors offer a range of products in areas other than those in which the Company competes, which may make such competitors more attractive to surgeons, hospitals, GPO's and others. In addition, many of the Company's competitors are larger and have greater financial resources than the Company and offer a range of products broader than the Company's. Competitive pricing pressures or the introduction of new products by the Company's competitors could have an adverse effect on the Company's revenues and profitability. Some of the companies with which the Company now competes 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 the Company, and may be better positioned to continue to improve their technology in order to compete in an evolving industry. See "Item 1:
Business -- Competition."

Demand for and use of the Company's products may fluctuate as a result of changes in surgeon preferences, the introduction of new products or new features to existing products, the introduction of alternative surgical technology and advances in surgical procedures and discoveries or developments in the health care industry. 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 office-based health care practitioners. There can be no assurance that demand for the Company's products will not be adversely affected by such fluctuations and trends.

Patents and Proprietary Technology

Much of the technology used in the markets in which the Company competes is covered by patents. The Company has numerous U.S. patents and corresponding foreign patents on products expiring at various dates from 1999 through 2017 and has additional patent applications pending. See "Item 1: Business -- Research and Development Activities." Although the Company does not rely solely on its patents to maintain its competitive position, the loss of the Company's patents could reduce the value of the related products and any related competitive advantage. Competitors may also be able to design around the Company's patents and to compete effectively with the Company's products. In addition, the cost to prosecute infringements of the Company's patents or the cost to defend the Company against patent infringement actions by others could be substantial. There can be no assurance that pending patent applications will result in issued patents, that patents issued to or licensed by the Company will not be challenged by competitors or that such patents will be found to be valid or sufficiently broad to protect the Company's technology or provide the Company with a competitive advantage.

Government Regulation of Products

All of the Company's products are classified as medical devices subject to regulation by the Food and Drug Administration (the "FDA"). As a manufacturer of medical devices, the Company's manufacturing processes and facilities are subject to on-site inspection and continuing review by the FDA to insure compliance with "Quality System Regulations," as defined by the FDA. Failure to comply with applicable requirements can result in fines, 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 and criminal prosecution. Many of the Company's products are also subject to industry-set standards.

The Company is subject to product recall. The Company's product lines have experienced a number of product recalls. See "Item 1: Business-Government

Regulation". Although no recall or production matter has had a material adverse effect on the Company's financial condition, there can be no assurance to this effect in the future.

Risks Relating to International Operations

A portion of the Company's operations are conducted outside the United States, with 21% of the Company's 1998 net sales constituting foreign sales. As a result of its international operations, the Company is 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, hyperinflation in certain foreign countries and imposition or increase of investment and other restrictions by foreign governments. There can be no assurance that such risks will not have a material adverse effect on the Company's business and results of operations.

Risk of Product Liability Actions

The nature of the Company's products as medical devices and today's litigious environment in the United States should be regarded as potential risks that could significantly and adversely affect the Company's financial condition and results of operations. The Company maintains insurance to protect against claims associated with the use of its products, but there can be no assurance that its insurance coverage would adequately cover the amount or nature of any claim asserted against the Company. See "Item 3: Legal Proceedings."

Surgery Products

The Company is a leading developer, manufacturer and supplier of a broad range of medical instruments and systems used in surgical and other medical procedures. The Company's surgery products include arthroscopic surgery devices and products, electrosurgical systems, powered surgical instruments, surgical suction instruments and imaging products used in minimally invasive surgery. These products are sold to surgeons, hospitals, outpatient surgery centers and physician offices primarily in the United States. Additionally, the Company provides repairs and services for its surgical products. Surgical products represented 85% of 1998 sales.

Arthroscopic Surgery Devices and Products

The Company offers a broad line of devices and products for use in arthroscopic surgery. Net sales attributable to arthroscopy products represented 36% of the Company's 1998 net sales.

Arthroscopy refers to diagnostic and therapeutic surgical procedures performed on joints with the use of minimally-invasive endoscopes 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. Approximately 75% of all arthroscopy is performed on the knee, although arthroscopic procedures are increasingly performed on smaller joints and shoulders.

The Company's arthroscopy products include powered resection instruments, arthroscopes, reconstructive systems, tissue repair sets, fluid management systems, imaging products, implants and related disposable products. It is the Company's standard practice to transfer some of these products, such as shaver consoles and pumps, to certain customers at no charge. The Company has benefited from the introduction of new products and new technologies in the arthroscopic area, such as bioresorbable screws, "push-in" suture anchors, resection shavers and cartilage repair implants.

Product	Description	Brand Name
Resection Shavers	Shaver consoles and handpieces, disposable blades to resect and remove soft tissue and bone; used in knee, shoulder and small joint surgery, as well as endoscopic sinus surgery.	Apex(R)
Reconstructive Systems	Products used in knee reconstructive surgery; includes instrumentation, screws, pins and drills.	Paramax(R) PinnACL(R)
Tissue Repair Sets	Sets of instruments designed to attach specific torn or damaged soft tissue to bone or other tissue in the knee, shoulder and wrist; includes guides, hooks and suture devices.	Spectrum(R) BioAnchor(R) Inteq(R)
Fluid Management Systems	Disposable tubing sets, disposable and reusable inflow devices, pumps and suction/waste management systems for use in arthroscopic and general surgeries.	Apex(R) PuddleVac(R) QuickFlow(R)
Imaging	Surgical video systems for endoscopic procedures; includes autoclavable singlechip digital and threechip camera consoles, heads, endoscopes, light sources, monitors, VCRs and printers.	Apex(R) 8180 Series
Implants	Products including bioresorbable and metal interference screws, anchors and staples for attaching tissue to bone in the knee and shoulder.	BioScrew(R) BioStinger(R) Ultrafix(R) Revo(R)
Other Instruments and Accessories	Forceps, graspers, suction punches, probes, cases and other general instruments for arthroscopic procedures.	Shutt(R) TractionTower(R)

Electrosurgical Systems

During 1996, 1997 and 1998, net sales attributable to electrosurgery products represented 49%, 45%, and 20% respectively, of the Company's net sales.

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. An electrosurgical system consists of a generator, an active electrode in the form of a pencil or other instrument which the surgeon uses to apply the current from the generator to the target tissue and a ground pad to safely return the current to the generator. Electrosurgery is routinely used in most forms of surgery, including general, dermatologic, thoracic, orthopaedic, urologic, neurosurgical, gynecological, laparoscopic, arthroscopic and other endoscopic procedures.

The Company's electrosurgical products include electrosurgical pencils, ground pads, generators, the argon-beam coagulation system, ABC(R), and related disposable products. ABC(R) technology is a special method of electrosurgery, which allows a faster and more complete coagulation of many tissues as compared to conventional electrosurgery. Unlike conventional electrosurgery, the electrical current travels in a beam of ionized argon gas, allowing the current to be dispersed onto the bleeding tissue without the instrument touching the tissue. Clinicians have reported notable benefits of ABC(R) over traditional electrosurgical coagulation in certain clinical situations, including open-heart, liver, spleen and trauma surgery.

Electrosurgical Systems		
Product	Description	Brand Name
Pencils	Disposable and reusable instruments designed to deliver high-frequency electric current to cut and/or coagulate tissue.	Hand-trol(R)
Ground Pads	Disposable ground pads to safely return the current to the generator; available in adult, pediatric and infant sizes.	Macrolyte(R) Bio-gard(R)
Generators	Monopolar and bipolar generators for surgical procedures performed in a physician's office or clinic setting.	EXCALIBUR Plus PC(R) SABRE(R) Hyfrecator Plus(R)
Argon Beam Coagulation Systems	Specialized electrosurgical generators, disposable hand pieces and ground pads for non-contact cutting and coagulation of tissue.	ABC(R) Beamer Plus(R)
Accessories	Disposable products such as blades, forceps, adapters and cables.	CONMED(R) Aspen Labs(R)

Powered Instruments

The Company offers a broad line of powered instruments which represented 20% of the Company's 1998 net sales.

Powered instruments are used to perform orthopaedic, 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.

The Company's line of powered instruments are sold principally under the Hall(R) Surgical brand name, for use in orthopaedic, oral/maxillofacial, podiatric, plastic, otolaryngologic, neurological and thoracic surgeries. Large bone powered instruments and specialty powered instruments are sold primarily to hospitals while small bone powered instruments are sold to hospitals, outpatient facilities and physician offices. Linvatec has devoted substantial resources to developing a new technology base for small bone instruments that can be easily adapted and modified for new procedures.

Powered Instruments

Product	Description	Brand Name
Small Bone	Powered saws, drills and related disposable accessories for small bone and joint surgical procedures.	Hall(R) Surgical E9000(R) MicroChoice(R) Surgairtome(R)
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 VersiPower(R) Series 4(R)
Specialty	Procedure-specific powered saws, drills and related disposable accessories for use in oral/ maxillofacial, neurosurgery, otolaryngologic, and thoracic procedures.	UltraPower(R) Hall Osteon(R) Orthairtome(R)
Other Powered Instruments	Powered sternum saw handpieces and disposable saw blades for use by cardiothoracic surgeons during open-heart procedures.	Hall(R) Surgical E9000(R) UltraPower(R) Micro 100

Other General Surgical Products

The Company's other general surgical products include a variety of products used in surgical settings. Other general surgical products represented 3%, 12% and 9% of the Company's 1996, 1997 and 1998 net sales, respectively.

Other General Surgical Products

Product	Description	Brand Name
Laparoscopic Instruments	Specialized trocars, suction/irrigation electrosurgical instrument systems for use in laparoscopic surgery; includes disposable handles, valve/control assemblies with disposable accessories and monopolar and bipolar scissors, graspers and loops.	UNIVERSAL Plus(R) TroGard(R) Trogard Finesse(TM)
Surgical Suction Instruments and Tubing	Disposable surgical suction instruments and connecting tubing, including Yankauer, Poole, Frazier and Sigmoidoscopic instrumentation, for use by physicians in the majority of open surgical procedures.	CONMED(R)

Patient Care Products

During 1996, 1997 and 1998 net sales attributable to patient care products represented 48%, 43% and 15% respectively, of the Company's net sales.

The Company manufactures a variety of patient care products for use in monitoring cardiac rhythms, wound care management and IV therapy. These products include ECG electrodes and cables, wound dressings and catheter stabilization

dressings. These products are sold to hospitals, outpatient surgery centers and physician offices primarily in the United States. The majority of the Company's sales in this category are derived from the sale of ECG electrodes. Although wound management and intravenous therapy product sales are comparatively small, the application of these products in the operating room complements the Company's surgery business.

Patient Care Products

Product	Description	Brand Name
ECG Monitoring	Line of disposable electrodes, monitoring cables, lead wire products and accessories designed to transmit ECG signals from the heart to an ECG monitor or recorder.	CONMED(R) Ultratrace(R) Cleartrace(R)
Wound Care	Disposable transparent wound dressings comprising proprietary hydrogel; able to absorb 2 1/2 times its weight in wound exudate.	ClearSite(R) Hydrogauze(R)
Intravenous Therapy	Disposable IV drip rate gravity controller and disposable catheter stabilization dressing designed to hold and secure an IV needle or catheter for use in IV therapy.	VENI-GARD(R) MasterFlow(R) Stat 2(R)

Marketing

CONMED markets its products domestically through a sales force consisting of approximately 200 sales people. In order to provide a high level of expertise to medical specialties served, the Company's overall sales force is separated into dedicated groups for 1) arthroscopy, 2) power instruments and 3) electrosurgical systems, other general surgical products and patient care products. Each sales representative has a defined geographic area and is compensated on a commission basis or through a combination of salary and commission. The sales force is supervised and supported by area directors. Home office sales and marketing management provide the overall direction for the sales of the Company's products.

CONMED's salespeople call on surgeons, hospitals, outpatient surgery centers and physician offices. The Company also has a corporate sales department that is responsible for interacting with GPO's. The Company believes that it has contracts with most such organizations and that the lack of any individual group purchasing contract will not adversely impact the Company's competitiveness in the marketplace. The sale of the Company's products is accompanied by initial and ongoing in-service training of the end user. The field sales force is trained in the technical aspects of the Company's products and their uses, and provides surgeons and medical personal with information relating to the technical features and benefits of the Company's products. For hospital inventory management purposes, at the hospitals' request, some products are sold to hospitals through distributors. The sales force is required to work closely with distributors where applicable and to maintain close relationships with end-users.

The Company's international sales accounted for 21% of total revenues in 1998. Products are sold in over 100 foreign countries. International sales efforts are coordinated through local country dealers or with direct sales efforts. CONMED distributes its products through sales subsidiaries and branches with offices located in Australia, Belgium, Canada, France, Germany, Hong Kong, Spain and the United Kingdom.

In connection with the Linvatec acquisition, Zimmer, a subsidiary of BMS specializing in orthopaedic implant products, agreed to continue distribution of the Company's large bone powered instruments in the United States and eight international countries for three years. Additionally, Zimmer has agreed to distribute the Company's arthroscopic and powered instrument in Japan and certain Eastern European countries for up to three years. Sales under these distribution agreements approximated 9% of the Company's 1998 net sales.

Research and Development Activities

During the three years, 1996, 1997 and 1998, the Company spent

approximately $3.0 million, $3.0 million and $12.0 million, respectively, for research and development. The Company's research and development departments consist of 99 employees.

The Company's research and development programs focus on the development of new products, as well as the enhancement of existing products with the latest technology and updated designs. The Company is continually seeking to develop new technologies to improve durability, performance and usability of existing products. In addition to its own research and development, the Company receives new product and technology disclosures, especially in procedure-specific areas, from surgeons, inventors and operating room personnel. For disclosures that the Company deems promising from a clinical and commercial perspective, the Company seeks to obtain rights to these ideas by negotiating agreements, which typically compensate the originator of the idea through royalty payments based on a percentage of net sales of licensed products.

The Company has rights to numerous U.S. patents and corresponding foreign patents, covering a wide range of its products. The Company owns a majority of these patents and has licensed rights to the remainder, both on an exclusive and non-exclusive basis. In addition, certain patents are currently licensed to third parties on a non-exclusive basis. Due to technological advancements, the Company does not rely on its patents to maintain its competitive position, and believes that development of new products and improvement of existing ones is and will continue to be more important than patent protection in maintaining its competitive position.

Competition

The markets for the Company's products are highly competitive, and many of the Company's competitors are substantially larger and stronger financially than the Company. However, the Company does not believe that any one competitor competes with the Company across all its product lines. Major competitors of the Company include Smith & Nephew plc, Stryker Corporation, Valleylab and Graphic Controls (units of Tyco International Ltd.) and Minnesota Mining and Manufacturing Company.

The Company believes that product design, development and improvement, customer acceptance, marketing strategy, customer service and price are critical elements to compete in its industry. Other alternatives, such as medical procedures or pharmaceuticals, could at some point prove to be interchangeable alternatives to the Company's products.

Government Regulation

Most if not all of the Company's products are classified as medical devices subject to regulation by the FDA. The Company's new products generally require FDA clearance under a procedure known as 510(k) premarketing notification. A 510(k) premarketing notification clearance indicates FDA agreement with an applicant's determination that the product for which clearance has been sought is substantially equivalent to another medical device that was on the market prior to 1976 or that has received 510(k) premarketing notification clearance. Some products have been continuously produced, marketed and sold since May 1976 and require no 510(k) premarketing clearance. The Company's products generally are either Class I or Class II products with the FDA, meaning that the Company's products must meet certain FDA standards and are subject to the 510(k) premarketing notification clearance discussed above, but are not required to be approved by the FDA. FDA clearance is subject to continual review, and later discovery of previously unknown problems may result in restrictions on a product's marketing or withdrawal of the product from the market.

The Company has a quality control/regulatory compliance group of 85 employees that is tasked with assuring that all of the Company's products comply with design specifications and relevant government regulations. The Company and substantially all of its products are subject to the provisions of the Federal Food, Drug and Cosmetic Act of 1938, as amended by the Medical Device Amendments of 1976, and the Safe Medical Device Act of 1990, as amended in 1992.

As a manufacturer of medical devices, the Company's manufacturing processes and facilities are subject to periodic on-site inspections and continuing review by the FDA to insure compliance with Quality System Regulations as specified in Title 21, Code of Federal Regulation (CFR) part 820. Many of the Company's products are subject to industry-set standards. Industry standards relating to the Company's products are generally formulated by committees of the Association for the Advancement of Medical Instrumentation. The Company believes that its products presently meet applicable standards. The Company markets its products in a number of foreign markets. Requirements pertaining to its products vary widely from country to country, ranging from simple product registrations to detailed submissions such as those required by the FDA. The Company believes that its products currently meet applicable standards for the countries in which they are marketed.

The Company is subject to product recall. All Company recalls prior to 1998 have been closed. The Company initiated three recalls during 1998 in the Hall Surgical product line. Corrective actions were taken to address the cause of the recalls. No recall or production matter has had a material effect on the Company's financial condition.

Any change in existing federal, state or foreign laws or regulations, or in the interpretation or enforcement thereof, or the promulgation or any additional laws or regulations could have an adverse effect on the Company's financial condition or results of operations.

Employees

As of December 31, 1998, the Company had 2,392 full-time employees, of whom 1,635 were in manufacturing, 99 in research and development, and the balance were in sales, marketing, executive and administrative positions. None of the Company's employees are represented by a union, and the Company considers its employee relations to be excellent. The Company has never experienced any strikes or work stoppages.

Item 2. Properties

Facilities

The Company manufactures most of its products. Substantially all of the Company's property and assets are pledged as collateral under the Credit Facility. The following table provides information regarding the Company's facilities. The Company believes its facilities are adequate in terms of space and suitability for its needs over the next several years.

Location	Square Feet	Own or Lease	Expiration
Utica, NY (three facilities)	650,000	Own	--
Largo, FL	213,000	Lease	2009
Rome, NY	120,000	Own	--
Englewood, CO	65,000	Own	--
Juarez, Mexico	25,000	Lease	December 2000
Santa Barbara, CA	18,000	Lease	December 2001
El Paso, TX	29,000	Lease	April 2002

Manufacturing

The Company manufactures most of its products. The Company believes its vertically integrated manufacturing process allows it to provide quality products and generate manufacturing efficiencies, including by purchasing raw materials for its disposable products in bulk. The Company also believes that its manufacturing capabilities allow it to contain costs, control quality and

maintain security of proprietary processes. The Company uses various manual and 0automated equipment for fabrication and assembly of its products and is continuing to further automate its facilities.

The Company believes its production and inventory practices are generally reflective of conditions in the industry. The Company's products are not generally made to order or to individual customer specifications. Accordingly, the Company schedules production and stocks inventory on the basis of experience and its knowledge of customer order patterns, and its judgment as to anticipated demand. Since customer orders must generally be filled promptly for immediate shipment, backlog of unfilled orders is not significant to an understanding of the Company's business.

Item 3. Legal Proceedings

From time to time the Company is a defendant in certain lawsuits alleging product liability, patent infringement, or other claims incurred in the ordinary course of business. These claims are generally covered by various insurance policies, subject to certain deductible amounts and maximum policy limits. When there is no insurance coverage, the Company establishes sufficient reserves to cover losses associated with such claims. The Company does not expect that the resolution of any pending claims will have a material adverse effect on the Company's financial condition or results of operations.

Manufacturers of medical products may face exposure to significant product liability claims. To date, the Company has not experienced any material product liability claims, but any such claims arising in the future could have a material adverse effect on the Company's business or results of operations. The Company currently maintains commercial product liability insurance of $25,000,000 per incident and $25,000,000 in the aggregate annually, which the Company, based on its experience, believes is adequate. This coverage is on a claims-made basis. There can be no assurance that claims will not exceed insurance coverage or that such insurance will be available in the future at a reasonable cost to the Company.

The Company's operations are subject to a number of environmental laws and regulations governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater remediation and employee health and safety. In some jurisdictions environmental requirements may be expected to become more stringent in the future. In the United States certain environmental laws can impose liability for the entire cost of site restoration upon each of the parties that may have contributed to conditions at the site regardless of fault or the lawfulness of the party's activities.

While the Company does not believe that the present costs of environmental compliance and remediation are material, there can be no assurance that future compliance or remedial obligations could not have a material adverse effect on the Company's financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 1998.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters

The Company's Common Stock, par value $.01 per share, is traded on the Nasdaq National Market System (symbol - CNMD). At March 12, 1999, there were 1,376 registered holders of the Company's Common Stock and, in addition, the Company has been notified that, on such date, there were approximately 6,742 accounts held in "street name".

The following table shows the high-low last sales prices for the years ended December 31, 1997 and 1998, as reported by the Nasdaq National Market System. Such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down and commission and may not necessarily

represent actual transactions.

	1997	
Period	High	Low
First Quarter	$21.63	$14.38
Second Quarter	19.25	12.25
Third Quarter	21.50	16.38
Fourth Quarter	29.75	18.50

	1998	
Period	High	Low
First Quarter	$25.75	$21.50
Second Quarter	26.00	21.13
Third Quarter	24.88	20.31
Fourth Quarter	33.00	21.88

The Company did not pay cash dividends on its Common Stock during 1997 and 1998. The Credit Facility prohibits the payment of cash dividends on the Company's Common Stock. The Company's Board of Directors presently intends to retain future earnings to finance the development of the Company's business.

Item 6. Selected Financial Data

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA
(In thousands, except per share data)

	Years Ended December				
	1994	1995	1996	1997	1998
Statements of Operations Data(1):					
Net sales	$ 71,064	$ 99,558	$ 125,630	$ 138,270	$ 336,442
Cost of sales (2)	38,799	52,402	65,393	74,220	169,599
Selling and administrative expense	20,979	25,570	31,620	35,299	93,647
Research and development expense	2,352	2,832	2,953	3,037	12,029
Unusual items (3)	-	-	-	37,242	-
Income (loss) from operations	8,934	18,754	25,664	(11,528)	61,167
Interest income (expense), net	(628)	(1,991)	(217)	(823)	(30,891)
Income (loss) before income taxes and extraordinary item	8,306	16,763	25,447	(10,705)	30,276
Provision (benefit) for income taxes	2,890	5,900	9,161	(3,640)	10,899
Income (loss) before extraordinary item	5,416	10,863	16,286	(7,065)	19,377
Extraordinary item, net of income taxes(4)	-	-	-	-	(1,569)
Net income (loss)	$ 5,416	$ 10,863	$ 16,286	$ (7,065)	$ 17,808
Earnings (Loss) Per Share Before Extraordinary Item:					
Basic	$ 0.60	$ 1.03	$ 1.16	$ (0.47)	$ 1.28
Diluted	$ 0.56	$ 0.94	$ 1.12	$ (0.47)	$ 1.26
Earnings (Loss) Per Share:					
Basic	$ 0.60	$ 1.03	$ 1.16	$ (0.47)	$ 1.18
Diluted	$ 0.56	$ 0.94	$ 1.12	$ (0.47)	$ 1.16
Weighted Average Number of Common Shares In Calculating (5):					
Basic earnings (loss) per share	9,032	10,517	14,045	14,997	15,085
Diluted earnings (loss) per share	9,624	11,613	14,496	14,997	15,321
Other Financial Data:					
Depreciation and amortization	$ 3,878	$ 5,015	$ 6,410	$ 6,954	$ 23,601
EBITDA(6)	12,812	23,769	32,074	32,668	86,576
Capital expenditures	2,190	5,195	4,946	8,178	12,924
Ratio of earnings to fixed charges (7)	11.73x	8.84x	79.30x	(7)	1.95

	December				
	1994	1995	1996	1997	1998
Balance Sheet Data(8):					
Cash and cash equivalents	$ 3,615	$ 1,539	$ 20,173	$ 13,452	$ 5,906
Total assets	62,104	119,403	170,083	561,637	628,784
Long-term debt (including current portion)	9,375	32,340	-	365,000	384,872
Total shareholders' equity	43,061	75,002	158,635	162,736	182,168

(footnotes on following page)

(1) Includes, based on the purchase method of accounting, the results of (i) Birtcher Medical Systems, Inc. ("Birtcher") from March 1995; (ii) the IV controller product line acquired from Master Medical Corporation ("Master Medical") from May 1995; (iii) NDM, Inc. ("NDM"), the subsidiary formed as a result of the product lines acquired from New Dimensions in Medicine, Inc., from February 1996; (iv) the surgical suction product line acquired from the Davol subsidiary ("Davol") of C.R. Bard, Inc., from July 1997 and (v) Linvatec Corporation from December 31, 1997, in each such case from the date of acquisition.

(2) Includes for 1998, $3.0 million of incremental expense related to the excess of the fair value at the acquisition date of Linvatec inventory over the cost to produce.

(3) Includes for 1997 a $34.0 million 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, $0.9 million write-off of deferred financing fees resulting from refinancing the Company's loan agreements in connection with the Linvatec Acquisition, and $2.3 million charge for the closing of the Company's Dayton, Ohio manufacturing facility.

(4) In March 1998, the Company recorded an extraordinary item of $2.5 million ($1.6 million net of income taxes) related to the write-off of deferred financing fees.

(5) All share and per share amounts have been adjusted to give effect to the Company's three-for-two stock splits in the form of stock dividends paid on December 27, 1994 and November 30, 1995.

(6) EBITDA represents earnings before interest expense, income taxes, depreciation and amortization, unusual items and inventory adjustments pursuant to purchase accounting. EBITDA is included herein because certain investors consider it to be a useful measure of a company's ability to service its debt; however, EBITDA does not represent cash flow from operations, as defined in generally accepted accounting principles, and should not be considered in isolation or as a substitute for net income or cash flow from operations or as a measure of profitability or liquidity.

(7) The ratio of earnings to fixed charges is calculated by dividing fixed charges into income before income taxes and extraordinary items plus fixed charges. Fixed charges include interest expense, amortization of debt issuance cost and the estimated interest component of rent expense. In 1997, the Company had a deficiency of earnings to cover fixed charges of $10,558,000.

(8) Linvatec is included in the Historical Balance Sheet Data as of December 31, 1997, its date of acquisition, after a one-time non-cash acquisition charge of $34.0 million.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with Selected Historical Financial Information (Item 6) and the consolidated financial statements of CONMED which are included elsewhere or incorporated by reference in this Form 10-K.

General

The Company is a leading developer, manufacturer and supplier of a broad range of medical instruments and systems used in orthopaedics, general surgery and other medical procedures. On December 31, 1997, the Company acquired Linvatec Corporation from Bristol-Myers Squibb Company, more than doubling the revenues of the Company and positioning CONMED as a leading orthopaedic supplier of minimally invasive surgical products for arthroscopic surgery, as well as a leader in the powered surgical instrument market.

Results of Operations

The following table presents, as a percent of net sales, certain categories included in CONMED's consolidated statements of income for the periods indicated:

	Years Ended December		
	1996	1997	1998
Net sales	100.0%	100.0%	100.0%
Cost of sales	52.1	53.7	50.4
Gross profit	47.9	46.3	49.6
Selling and administrative expense	25.2	25.5	27.8
Research and development expense	2.3	2.2	3.6
Unusual items		26.9	
Income (loss) from operations	20.4	(8.3)	18.2
Interest income (expense), net	(0.2)	0.6	(9.2)
Income (loss) before income taxes and extraordinary item	20.2	(7.7)	9.0
Provision (benefit) for income taxes	7.3	(2.6)	3.2
Income (loss) before extraordinary item	12.9%	(5.1)%	5.8%

Years Ended December 31, 1998 and December 31, 1997

Sales for 1998 were $336,442,000, an increase of 143% compared to sales of $138,270,000 in 1997. The increase was principally the result of the acquisitions of Linvatec on December 31, 1997 and the surgical suction instrument and tubing product line from Davol on July 1, 1997.

Cost of sales increased to $169,599,000 in 1998 as compared to the $74,220,000 in 1997 as a result of increased sales volume. The increase in gross profit percentage is primarily a result of the Linvatec products which have a higher gross profit percentage than the Company's overall gross profit percentage. The Company's gross profit percentage was 49.6% in 1998 as compared to 46.3% in 1997. In connection with purchase accounting for the Linvatec acquisition, the Company increased the acquired value of inventory by $3.0 million over its production cost. This inventory was sold during the quarter ended March 1998 and, accordingly, this non-recurring adjustment served to reduce the Company's 1998 gross profit percentage by 0.8 percentage points. Additionally, certain of the Company's orthopaedic sales for the first six months were distributed through Zimmer, Inc., a wholly-owned subsidiary of Bristol-Myers Squibb Company under provisions of distribution and transition agreements entered into in connection with the Linvatec acquisition. This arrangement served to adversely impact the Company's gross profit percentage for the first six months of 1998. As a result of the above factors, the Company's gross profit percentage was 52.0% in the second half of 1998 and 47.0% in the first half of 1998.

Selling and administrative costs increased to $93,647,000 in 1998 as compared to $35,299,000 in 1997, primarily as a result of the Linvatec acquisition. As a percentage of sales, selling and administrative expense was 27.8% in 1998 and 25.5% in 1997. This increase reflects the overall higher selling and administrative efforts associated with the sales of the orthopaedic products acquired in connection with the Linvatec acquisition.

Research and development expense was $12,029,000 in 1998 as compared to $3,037,000 in 1997. The increase reflects expense related to Linvatec research and development activities.

There were no unusual charges recorded in 1998. As discussed below, in 1997 CONMED recorded $37.2 million of unusual items, including a $34.0 million non-cash acquisition charge for the write-off of the in-process research and development (comprised of products in the development stage) acquired in the Linvatec acquisition, $0.9 million of deferred financing fees resulting from the refinancing of the Company's loan agreements in connection with the Linvatec acquisition and a $2.3 million charge for the closing of CONMED's Dayton, Ohio manufacturing facility.

Interest expense for 1998 was $30,891,000 compared to interest income of $823,000 in 1997. As discussed under Liquidity and Capital Resources, the Company acquired Linvatec Corporation on December 31, 1997 and borrowed $365 million under its credit facility. The Company had no borrowings outstanding during 1997, except the acquisition related borrowings on December 31, 1997. The Company completed an offering of subordinated notes during the quarter ended March 1998 and used the net proceeds to repay a portion of the Company's term loans under its credit facility. Deferred financing fees relating to the portion of the credit facility repaid amounting to $2.5 million ($1.6 million net of income taxes) were written-off as an extraordinary item in 1998.

Years Ended December 31, 1997 and December 31, 1996

Sales for 1997 were $138.3 million, an increase of $12.7 million, or 10.1%, compared to sales of $125.6 million in 1996. The increase was primarily a result of the Davol product line acquisition effective July 1, 1997, and the NDM acquisition that was reflected in 1996 results only from February 23, 1996, the date of acquisition. Offsetting the incremental sales volume associated with the acquisitions was the effect of realignment of CONMED's domestic sales force effective January 1, 1997.

Prior to 1997, CONMED maintained separate sales forces, each of which sold only a portion of CONMED's product offerings. With the January 1, 1997 realignment, each of CONMED's territory managers became responsible for selling its entire product line. While management believes that this change has enhanced CONMED's sales efforts, management believes that sales for the first six months of 1997 were negatively impacted by this change due to training and transition issues.

Cost of sales increased to $74.2 million in 1997, an increase of $8.8 million, or 13.5%, compared to cost of sales of $65.4 million in 1996. CONMED's gross profit percentage was 46.3% in 1997 as compared to 47.9% in 1996. Factors adversely impacting the gross profit percentage in 1997 include the Davol product line, which has a lower gross profit percentage than CONMED's overall gross profit percentage, and the effects of lower pricing on ECG electrodes.

Selling and administrative expense increased to $35.3 million in 1997, an increase of $3.7 million, or 11.6%, compared to selling and administrative expense of $31.6 million in 1996. As a percent of sales, selling and administrative expense increased to 25.5% in 1997 from 25.2% in 1996. Selling and administrative expense for the first two quarters of 1997 averaged 28.1% of net sales and were adversely impacted by incremental costs associated with CONMED's realignment of its domestic sales force which was completed in the second quarter of 1997. Selling and administrative expense for the last two quarters of 1997 declined to an average of 24.4% of net sales reflecting the completion of the sales force realignment and economies of scale resulting from the Davol product line acquisition effective July 1, 1997.

Research and development expense was $3.0 million in each of 1997 and 1996. CONMED continues to conduct research and development activities in all of its product lines, with a particular emphasis on products for minimally invasive surgery.

In 1997, CONMED recorded $37.2 million of unusual items, including a $34.0 million non-cash acquisition charge for the write-off of the in-process research and development (R & D) acquired in the Linvatec acquisition, $0.9 million of deferred financing fees resulting from the refinancing of the Company's loan agreements in connection with the Linvatec acquisition and a $2.3 million charge for the closing of CONMED's Dayton, Ohio manufacturing facility. Purchased in-process R & D includes the value of products in the development stage and not considered to have reached technological feasibility. In accordance with applicable accounting rules, purchased in-process R & D is required to be expensed. The value assigned to purchased in-process R & D, based on a valuation prepared by an independent third-party appraisal company, was determined by identifying research projects in areas for which technological feasibility had not been established, including arthroscopic resection and procedure specific surgical instruments ($10,112,000), imaging technology for minimally invasive surgical procedures ($11,706,000), specialty surgical powered instruments ($8,386,000), and other ($3,797,000). The value was determined by estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from such projects, and discounting the net cash flows back to their present value using a discount rate of 13%. At the date of acquisition, remaining costs to complete these projects were $162,000 for arthroscopic resection and procedure specific, $281,000 for imaging technology, $424,000 for specialty surgical powered instruments and $840,000 for other projects. During 1998, these projects were either completed or abandoned. These projects ranged from 60% to 90% complete at the date of acquisition. Costs to complete these projects consist primarily of direct salaries and wages. Revenues from certain of these projects began in 1998. The closure of the Dayton facility was completed in 1997 and the components of the charge consisted primarily of employee severance and the write-down of the carrying value of fixed assets.

In 1997, CONMED had net interest income of $0.8 million, compared to net interest expense of $0.2 million in 1996. CONMED repaid all then-outstanding balances under a predecessor credit agreement in 1996 following the completion of CONMED's offering of 2,998,000 shares of common stock. No further borrowings were made under any CONMED credit facilities until December 31, 1997, when $365.0 million was borrowed under the credit facility in connection with the Linvatec acquisition.

As a result of the unusual items, CONMED recognized an income tax benefit of $3.6 million in 1997. CONMED's effective tax rate for 1996 was 36.0%

Liquidity and Capital Resources

Net cash provided by operations was $20,962,000 in 1998 as compared to $31,760,000 in 1997. Depreciation and amortization increased in 1998 primarily as a result of the completed acquisitions. Additionally, during the first quarter of 1998, the Company recorded a non-cash extraordinary charge related to the write-off of deferred financing fees. Operating cash flow for 1998 was positively impacted by increases in accounts payable and accrued interest, and a reduction in the net deferred income tax asset. Adversely impacting operating cash flows in 1998 was an increase in accounts receivable and inventories primarily as a result of the timing of CONMED's assumption of Linvatec's international operations previously managed by Zimmer. In connection with the Linvatec acquisition, CONMED assumed responsibility for the majority of Linvatec's international operation on July 1, 1998. Accordingly, the receivables and inventory of the international operations were not acquired or funded by CONMED until the second half of 1998.

Net cash used by investing activities in 1998 included $17.5 million paid related to the arthroscopy product line acquisition from Minnesota Mining and Manufacturing Company and $14.4 million of payments related to the Linvatec and Davol acquisitions. Components of the Linvatec acquisition related payments include investment banking and professional fees related to the acquisition ($6.3 million), payments associated with the closure of Linvatec's San Dimas, California facility ($2.5 million), payments to Zimmer, Inc. to acquire demonstration equipment ($1.4 million) and other acquisition related payments ($2.5 million). Cash payments related to the Davol acquisition amounted to $1.7 million, of which $1.2 million represented severance costs associated with

closure of the Company's Kansas manufacturing operation. Net cash used by investing activities in 1997 includes $24.0 million related to the acquisition of the surgical suction instrument and tubing product line from Davol, Inc. Capital expenditures for 1998 and 1997 amounted to $12.9 million and $8.2 million, respectively.

Financing activities during 1998 involved the completion of a subordinated note (the "Notes") offering in the aggregate principal amount of $130.0 million in March 1998. Net proceeds from the offering amounting to $126.1 million were used to repay a portion of the Company's term loans under its credit facility. In addition to the net proceeds of the subordinated note offering, the Company made payments on loans under its credit facility aggregating $7.0 million during 1998.

In connection with the Linvatec acquisition, the Company borrowed $350.0 million in term loans under its credit facility. Upon the application of mandatory principal payments including the subordinated note proceeds, the Company's term loans at December 31, 1998 aggregated $216.9 million and are repayable quarterly over remaining terms of four and six years. The Company's credit facility also includes a $100 million revolving credit facility which expires December 2002, of which $62.0 million was available on December 31, 1998. The borrowings under the credit facility carry interest rates based on a spread over LIBOR or an alternative base interest rate. The covenants of the credit facility provide for increase and decrease to this interest rate spread based on the operating results of the Company. Additionally, certain events of default under the credit facility limit interest rate options available to the Company. The weighted average interest rates at December 31, 1998 under the term loans and the revolving credit facility were 7.32% and 7.39%, respectively. Additionally, during the commitment period, the Company is obligated to pay a fee of 0.5% per annum on the unused portion of the revolving credit facility.

The Company does not use derivative financial instruments for trading or other speculative purposes. Interest rate swaps, a form of derivative, are used to manage interest rate risk. Currently, the Company has entered into two interest rate swaps expiring in June 2001 which convert $100 million of floating rate debt under the Company's credit facility into fixed rate debt at rates ranging from 7.18% to 8.25%. Provisions in one of the interest rate swaps cancels such agreement when LIBOR exceeds 7.35%.

The credit facility is collateralized by all the Company's personal property. The credit facility contains covenants and restrictions which, among other things, require maintenance of certain working capital levels and financial ratios, prohibit dividend payments and restrict the incurrence of certain indebtedness and other activities, including acquisitions and dispositions. The Company is also required to make mandatory prepayments from net cash proceeds from any issue of equity and asset sales and also from any excess cash flow, as defined in the credit agreement. The Company's 1998 operating results will meet excess cash flow provisions of the credit agreement and, accordingly, the Company expects to make mandatory prepayments on the term loans of approximately $16 million by March 31, 1999. The significant portion of the prepayment amount will be borrowed under the Company's revolving credit facility. Coincident with this mandatory prepayment, it is expected that the interest rate on the term loans and revolving credit facility will be reduced by 0.25%.

The Notes are in aggregate principal amount of $130 million and have a maturity date of March 15, 2008. The Notes bear interest at 9.0% per annum which is payable semi-annually. The indenture governing the Notes has certain restrictive covenants and provides for, among other things, mandatory and optional redemptions by the Company.

The credit facility and Notes are guaranteed (the "Subsidiary Guarantees") by each of the Company's subsidiaries in existence on the closing dates of the credit facility and the Notes (the "Subsidiary Guarantors"). The Subsidiary Guarantees provide that each Subsidiary Guarantor will fully and unconditionally guarantee the Company's obligations on a joint and several basis. Each Subsidiary Guarantor is wholly-owned by the Company. Under the credit facility and subordinated note indenture, the Company's subsidiaries are

subject to the same covenants and restrictions that apply to the Company (except that the Subsidiary Guarantors are permitted to make dividend payments and distributions, including cash dividend payments, to the Company or another Subsidiary Guarantor).

Management believes that cash generated from operations, its current cash resources and funds available under its credit facility will provide sufficient liquidity to ensure continued working capital for operations, debt service and funding of capital expenditures in the foreseeable future.

Year 2000

The Company and its subsidiaries use information technology ("IT") and non-IT systems that contain embedded technology throughout their businesses. Third parties with which the Company has material relationships also use such systems. After December 31, 1999, these systems will face a potentially serious problem if they are not able to recognize and correctly process dates beyond December 31, 1999. All of the Company's products, operations and information technology systems have been inventoried and those that are not Year 2000 ready have been identified. The upgrading and testing of those which are not Year 2000 ready is on schedule to be completed by June 30, 1999. The Company is also in the process of contacting its vendors and customers to ascertain their preparation for the Year 2000 issue and is in the process of identifying critical business partners for which the need for additional due diligence will be assessed. The costs of the Company's Year 2000 assessment and remediation program have not been and are not expected to be material. Although the Company does not expect the Year 2000 issue to have a material effect on its results of operations, liquidity or financial condition, failure of critical IT and non-IT systems could have a material adverse effect on the Company's results of operations, liquidity or financial condition. Further, the Company cannot eliminate the risk that revenue will be lost or costs will be incurred as a result of the failure by third parties to properly remediate their Year 2000 issues. Because the Company has not identified any areas of its own or its third parties IT and non-IT systems that will not be Year 2000 compliant, it has not yet developed any necessary contingency plans.

Foreign Operations

The Company's foreign operations are subject to special risks inherent in doing business outside the United States, including governmental instability, war and other international conflicts, civil and labor disturbances, requirements of local ownership, partial or total expropriation, nationalization, currency devaluation, foreign exchange controls and foreign laws and policies, each of which may limit the movement of assets or funds or result in the deprivation of contract rights or the taking of property without fair compensation.

An additional risk with respect to the Company's European operations relates to the conversion of certain European countries to a common currency which began January 1, 1999 (the "Euro Conversion"). The Company has formed an internal task force to evaluate the risks and implement any required actions with respect to the Euro Conversion. Based on the analysis of this task force, the Company does not believe that the costs to the Company to convert to a common currency will be material. Additionally the Company does not believe that there will be any material impact from a competitive point of view with respect to the impact of the Euro Conversion on the sales of products.

Item 8. Financial Statements and Supplementary Data

The Company's 1998 Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 9, 1999, are included elsewhere herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

The Company and PricewaterhouseCoopers LLP have had no disagreements which would be required to be reported under this Item 9.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information with respect to the Directors and Executive Officers of the Company is incorporated herein by reference to the sections captioned "Proposal One: Election of Directors" and "Directors, Executive Officers and Senior Officers" in CONMED Corporation's definitive Proxy Statement to be mailed on or about April 9, 1999 for the annual meeting of shareholders to be held on May 18, 1999.

Item 11. Executive Compensation

Information with respect to Executive Compensation is incorporated herein by reference to the sections captioned "Compensation of Executive Officers", "Stock Option Plans", "Pension Plans" and "Board of Directors Interlocks and Insider Participation; Certain Relationships and Related Transactions" in CONMED Corporation's definitive Proxy Statement to be mailed on or about April 9, 1999 for the annual meeting of shareholders to be held on May 18, 1999.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information with respect to Security Ownership of Certain Beneficial Owners and Management is incorporated herein by reference to the section captioned "Security Ownership of Certain Beneficial Owners and Management" in CONMED Corporation's definitive Proxy Statement to be mailed on or about April 9, 1999 for the annual meeting of shareholders to be held on May 18, 1999.

Item 13. Certain Relationships and Related Transactions

Information regarding certain relationships and related transactions is incorporated herein by reference to the section captioned "Board of Directors Interlocks and Insider Participation; Certain Relationships and Related Transactions" in CONMED Corporation's definitive Proxy Statement to be mailed on or about April 9, 1999 for the annual meeting of shareholders to be held on May 18, 1999.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

Index to Financial Statements:

shown in the financial statements or notes thereto.

(3) List of Exhibits
The exhibits listed on the accompanying Exhibit Index on page 33 below are filed as part of this Form 10-K.

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on the date indicated below.

CONMED CORPORATION

March 30, 1999

By: /s/ Eugene R. Corasanti

Eugene R. Corasanti

(Chairman of the Board, Chief Executive Officer and President)

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrants and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ EUGENE R. CORASANTI Eugene R. Corasanti	Chairman of the Board Chief Executive Officer President (Principal Executive Officer) and Director	March 30, 1999
/s/ ROBERT D. SHALLISH JR. Robert D. Shallish, Jr.	Vice President-Finance and Chief Financial Officer (Principal Financial Officer)	March 30, 1999
/s/ JOSEPH J. CORASANTI Joseph J. Corasanti	Executive Vice President General Manager and Director	March 30, 1999
/s/ LUKE A. POMILIO Luke A. Pomilio	Controller (Principal Accounting Officer)	March 30, 1999
/s/ BRUCE F. DANIELS Bruce F. Daniels	Director	March 30, 1999
/s/ ROBERT E. REMMELL Robert E. Remmell	Director	March 30, 1999
/s/ WILLIAM D. MATTHEWS	Director	March 30, 1999

William D. Matthews

/s/ STUART J. SCHWARTZ Director
- ---------------------------
Stuart J. Schwartz

EXHIBIT INDEX

Exhibit No.	Description of Instrument
2.1	- Plan and Agreement of Merger dated as of December 5, 1994 among the Company, CONMED Acquisition Corporation and Birtcher Medical Systems, Inc.-- incorporated herein by reference to appendix A of the Company's Registration Statement on S-4 (File No. 33-87746).
2.2	- Asset Purchase Agreement by and between New Dimensions In Medicine, Inc. and CONMED Corporation dated as of the 18th day of October 1995-- incorporated herein by reference to New Dimensions In Medicine, Inc's. (Commission File No. 1-09156) Report on Form 8-K dated October 18, 1995.
2.3	- Purchase Agreement, dated as of May 28, 1997, by and between Davol, Inc. and CONMED Corporation-- incorporated by reference to Exhibit 2 in the Company's Current Report on Form 8-K, filed on July 11, 1997.
2.4	- Stock and Asset Purchase Agreement dated as of November 26, 1997, between Bristol-Myers Squibb company and CONMED Corporation, as amended by an amendment dated as of December 31, 1997-- incorporated herein by reference to Exhibit 2.1(a) in the Company's Current Report on Form 8-K, filed on January 8, 1998.
2.5	- Amendment dated as of December 31, 1997, between Bristol-Myers Squibb Company and CONMED Corporation, to the Stock and Asset Purchase Agreement, dated as of November 26, 1997 between Bristol-Myers Squibb company and CONMED-- incorporated herein by reference to Exhibit 2.1(b) in the Company's Current Report on Form 8-K, filed on January 8, 1998.
2.6	Asset Purchase Agreement between Linvatec Corporation and Minnesota Mining & Manufacturing Company dated October 8, 1998.
3.1	- Amended and Restated By-Laws, as adopted by the Board of Directors on December 26, 1990-- incorporated herein by reference to the exhibit in the Company's Current Report on Form 8-K, dated March 7, 1991 (File No. 0-16093).
3.2	- 1996 Amendment to Certificate of Incorporation and Restated Certificate of Incorporation of CONMED Corporation -- incorporated herein by reference to the exhibit in the Company's Annual Report on Form 10-K for the year ended December 31, 1996.
4.1	- See Exhibit 3.1.
4.2	- See Exhibit 3.2.
4.3	- Credit Agreement, dated as of December 29, 1997, among CONMED Corporation, the several banks and other financial institutions of entities from time to time parties to the Agreement, Chase Securities Inc., Salomon Brothers Holding Company, Inc, and The Chase Manhattan Bank-- incorporated herein by reference to Exhibit 10.1 in the Company's Current Report on Form 8-K, filed on January 8, 1998.
4.4	- Guarantee and Collateral Agreement, dated as of December 31, 1997, made by CONMED Corporation and certain of its subsidiaries in favor of The Chase Manhattan Bank-- incorporated herein by reference to Exhibit 10.2 in the Company's Current Report on Form 8-K filed on January 8, 1998.
4.5	- Indenture, dated as of March 5, 1998, by an among CONMED Corporation, the Subsidiary Guarantors named therein and First Union National Bank,

as Trustee--incorporated by reference to the exhibit in the Company's Registration Statement on Form S-8 filed on March 26, 1998 (File No. 333-48693).

10.1 - Employment Agreement between the Company and Eugene R. Corasanti, dated December 16, 1996-- incorporated herein by reference to the exhibit in the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

10.2 - Amended and Restated Employee Stock Option Plan (including form of Stock Option Agreement)-- incorporated herein by reference to the exhibit in the Company's Annual Report on Form 10-K for the year ended December 25, 1992-- incorporated herein by reference to the exhibit in the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

10.2 (a) Eugene R. Corasanti disability income plans with Northwestern Mutual Life Insurance Company, dated January 14, 1980 and March 7, 1981-- policy specification sheets-- incorporated herein by reference to Exhibit 10.0(a) of the Company's Registration Statement on Form S-2 (File No. 33-40455).

(b) William W. Abraham disability income plan with Northwestern Mutual Life Insurance Company, dated March 24, 1981 -- policy specification sheet -- incorporated herein by reference to Exhibit 10.0(b) of the Company's Registration Statement on Form S-2 (File No. 33-40455).

(c) Eugene R. Corasanti life insurance plan with Northwestern Mutual Life Insurance Company, dated October 6, 1979 -- policy specification sheet -- incorporated herein by reference to Exhibit 10.9(c) of the Company's Registration Statement on Form S-2 (File No. 33-40455).

(d) Eugene R. Corasanti life insurance plans with Northwestern Mutual Life Insurance Company dated August 25, 1991 -- Statements of Policy Cost and Benefit Information, Benefits and Premiums, Assignment of Life Insurance Policy as Collateral -- incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 27, 1991.

10.3 - 1992 Stock Option Plan (including form of Stock Option Agreement). -- incorporated herein by reference to the exhibit in the Company's Annual Report on Form 10-K for the year ended December 25, 1992.

10.4 - Stock Option Plan for Non-Employee Directors of CONMED Corporation-- incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

10.5 - Amendment to 1992 Stock Option Plan-- incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

10.6 - See 4.4.

10.7 - See 4.5.

10.8 - See 4.6

10.9 - Transition and Distribution Services Agreement, dated December 31, 1997, among Zimmer, Inc., Linvatec Corporation and CONMED Corporation- incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

10.10 - Distribution Agreement, dated December 31, 1997, among Zimmer, Inc., Linvatec Corporation and CONMED Corporation - incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

11 - Statement re: Computation of Per Share Earnings.

12 - Statement re: Computation of Ratios of Earnings to Fixed Charges

21 - Subsidiaries of the Registrant.

23 - Consent, dated March 30, 1999, of PricewaterhouseCoopers LLP, independent auditors for CONMED Corporation.

27 - Financial Data Schedule.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Shareholders of CONMED Corporation

In our opinion, the accompanying consolidated financial statements listed in the index appearing under Item 14 (a)(i) and (2) on Page 28 present fairly, in all material respects, the financial position of CONMED Corporation and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Syracuse, New York
February 9, 1999

CONMED CORPORATION
CONSOLIDATED BALANCE SHEETS
December 1997 and 1998
(In thousands except share amounts)

	1997	1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,452	$ 5,906
Accounts receivable, less allowance for doubtful accounts of $2,708 in 1997 and $2,213 in 1998	47,188	66,819
Income taxes receivable (Note 6)	245	1,441
Inventories (Notes 1 and 3)	61,971	78,058
Deferred income taxes (Note 6)	1,898	2,776
Prepaid expenses and other current assets	1,186	4,620
Total current assets	125,940	159,620
Property, plant and equipment, net (Notes 1 and 4)	55,339	60,787
Deferred income taxes (Note 6)	10,783	3,900
Goodwill, net (Notes 1 and 2)	153,360	192,947
Patents, trademarks and other assets (Note 2)	216,215	211,530
Total assets	$ 561,637	$ 628,784
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5)	$ 11,000	$ 22,995
Accounts payable	9,556	19,594
Accrued payroll and withholdings	7,014	9,665
Accrued interest	-	6,069
Other current liabilities	3,037	7,873
Total current liabilities	30,607	66,196
Long-term debt (Note 5)	354,000	361,877
Other long-term liabilities	14,294	18,543
Total liabilities	398,901	446,616

Commitments (Notes 4, 7, 9, and 10)		
Shareholders' equity (Notes 1 and 7):		
Preferred stock, par value $.01 per share; authorized 500,000 shares, none outstanding	--	--
Common stock, par value $.01 per share; 40,000,000 authorized; 15,061,538 and 15,182,811, issued and outstanding in 1997 and 1998, respectively	151	152
Paid-in capital	123,451	125,039
Retained earnings	39,553	57,361
Cumulative translation adjustments	-	35
Less 25,000 shares of common stock in treasury, at cost	(419)	(419)
Total shareholders' equity	162,736	182,168
Total liabilities and shareholders' equity	$ 561,637	$ 628,784

CONMED CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 1996, 1997 and 1998
(In thousands except per share amounts)

	1996	1997	1998
Net sales (Note 8)	$125,630	$138,270	$336,442
Cost of sales	65,393	74,220	169,599
Selling and administrative expense	31,620	35,299	93,647
Research and development expense	2,953	3,037	12,029
Unusual items (Note 11)	-	37,242	-
	99,966	149,798	275,275
Income (loss) from operations	25,664	(11,528)	61,167
Interest income (expense), net (Note 5)	(217)	823	(30,891)
Income (loss) before income taxes and extraordinary item	25,447	(10,705)	30,276
Provision (benefit) for income taxes (Notes 1 and 6)	9,161	(3,640)	10,899
Income (loss) before extraordinary item	16,286	(7,065)	19,377
Extraordinary item, net of income taxes (Note 5)	-	-	(1,569)
Net income (loss)	$ 16,286	$ (7,065)	$ 17,808
Per share data:			
Income (loss) before extraordinary item			
Basic	$ 1.16	(.47)	$ 1.28
Diluted	1.12	(.47)	1.26
Extraordinary item			
Basic	-	-	(.10)
Diluted	-	-	(.10)
Net income (loss)			
Basic	1.16	(.47)	1.18
Diluted	1.12	(.47)	1.16

CONMED CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 1996, 1997 and 1998
(In thousands)

	Common Stock Number	Common Stock Amount	Paid-in Capital	Retained Earnings	Cumulative Translation Adjustments	Treasury Stock	Total Shareholders' Equity
Balance at December 1995	$ 11,000	$ 110	$ 44,560	$ 30,332			$ 75,002

Issuance of shares (Note 7).....	2,998	30	61,705				61,735
Exercise of stock options and a warrant (Note 7).....	991	10	4,208				4,218
Tax benefit arising from exercise of stock options.....			1,394				1,394
Net income				16,286			16,286
Balance at December 1996	14,989	150	111,867	46,618			158,635
Exercise of stock options.....	73	1	661				662
Tax benefit arising from exercise of stock options.....			298				298
Issuance of a warrant (Note 2).....			10,625				10,625
Purchase of CONMED common stock (Note 7).....						$ (419)	(419)
Net loss.....				(7,065)			(7,065)
Balance at December 1997	15,062	151	123,451	39,553		(419)	162,736
Exercise of stock options.....	121	1	1,087				1,088
Tax benefit arising from exercise of stock options.....			501				501
Comprehensive income.....							
Translation adjustments.....					$ 35		
Net income.....				17,808			
Total comprehensive income.....							17,843
Balance at December 1998	15,183	$ 152	$125,039	$ 57,361	$ 35	$ (419)	$182,168

CONMED CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 1996, 1997 and 1998
(In thousands)

	1996	1997	1998
Cash flows from operating activities:			
Net income (loss).....	$ 16,286	$ (7,065)	$ 17,808
Adjustments to reconcile net income (loss) to net cash provided by operations:			
Depreciation.....	3,670	3,880	8,098
Amortization.....	2,740	3,074	15,503
Extraordinary item, net of income taxes (Note 5)	-	-	1,569
Write-off of in-process research and development (Note 2)..	-	34,000	-
Increase (decrease) in cash flows from changes in assets and liabilities, net of effects from acquisitions (Note 2):			
Accounts receivable.....	(1,552)	(1,499)	(19,614)
Inventories.....	360	6,295	(19,303)
Prepaid expenses and other current assets.....	(264)	(228)	(1,180)
Accounts payable.....	82	(73)	10,028
Income tax receivable/payable.....	195	521	(1,348)
Income tax benefit of stock option exercises.....	1,394	298	501
Accrued payroll and withholdings.....	(245)	263	2,834
Accrued interest.....	-	-	6,069
Other current liabilities.....	21	1,627	(1,347)
Deferred income taxes.....	3,713	(10,809)	7,039
Other assets/liabilities, net.....	(492)	1,476	(5,695)
	9,622	38,825	3,154
Net cash provided by operations.....	25,908	31,760	20,962
Cash flows from investing activities:			
Payments related to business acquisitions (Note 2).....	(31,672)	(395,273)	(31,909)
Acquisition of property, plant and equipment.....	(4,946)	(8,178)	(12,924)
Net cash used by investing activities.....	(36,618)	(403,451)	(44,833)
Cash flows from financing activities:			
Proceeds of long-term debt.....	32,660	365,000	130,000
Borrowings under revolving credit facility (Note 5)	-	-	23,000
Proceeds from issuance of common stock.....	65,953	662	1,088
Purchase of treasury stock (Note 7).....	-	(419)	-
Payments related to issuance of long-term debt.....	-	-	(4,635)
Payments on long-term debt and other obligations.....	(69,269)	(273)	(133,128)
Net cash provided by financing activities.....	29,344	364,970	16,325

(continued)

Net increase (decrease) in cash and cash equivalents.....	18,634	(6,721)	(7,546)
Cash and cash equivalents at beginning of year.....	1,539	20,173	13,452

Cash and cash equivalents at end of year	$ 20,173	$ 13,452	$ 5,906
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 941	$ -	$ 24,078
Income taxes	5,347	6,079	4,121

Supplemental non-cash investing and financing activities:

As more fully described in Note 2, the Company issued a warrant for the purchase of 1,000,000 common shares with a value of $10,625,000 in connection with a 1997 acquisition.

CONMED CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 -- Operations and Significant Accounting Policies

Organization and operations

The consolidated financial statements include the accounts of CONMED Corporation and its subsidiaries (the "Company"). All intercompany transactions have been eliminated. The Company is a leading developer, manufacturer and supplier of a range of medical instruments and systems used in surgical and other medical procedures. The Company's product offerings include electrosurgical systems, electrocardiogram ("ECG") electrodes and accessories, surgical suction instruments, intravenous ("IV") therapy accessories and wound care products. Through its acquisition of Linvatec Corporation (Note 2), the Company has expanded its arthroscopic surgery product line and broadened its product offerings to include powered surgical instruments and imaging products for minimally invasive surgery. The Company's products are used in a variety of clinical settings, such as operating rooms, surgery centers, physicians' offices and critical care areas of hospitals.

Statement of cash flows

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventories

The inventories are stated at the lower of cost or market, cost being determined on the first-in, first-out basis.

Property, plant and equipment

Property, plant and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets, which range from four to forty years. Expenditures for repairs and maintenance are charged to expense as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resultant gain or loss is recognized.

Goodwill

Goodwill is amortized over periods ranging from 13 to 40 years. Accumulated amortization of goodwill amounted to $6,468,000 and $10,996,000 at December 31, 1997 and 1998, respectively.

When events and circumstances so indicate, the Company will assess the recoverability of its goodwill based upon cash flow forecasts (undiscounted and without interest). No impairment losses have been recognized in any of the periods presented.

Translation of foreign currency financial statements

Assets and liabilities of foreign subsidiaries have been translated into United States dollars at the applicable rates of exchange in effect at the end of the period reported. Revenues and expenses have been translated at the

applicable weighted average rates of exchange in effect during the period reported. Translation adjustments are reflected as a separate component of shareholders' equity. Any transaction gains and losses are included in net income.

Earnings (loss) per share

In the fourth quarter of 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share". This standard requires presentation of basic earnings per share ("EPS"), computed based on the weighted average number of common shares outstanding for the period, and diluted EPS, which gives effect to all dilutive potential shares outstanding (i.e., options and warrants) during the period. Previously presented EPS amounts have been restated to reflect the method of computation required by SFAS No. 128. Income used in the EPS calculation is net income (loss) for each year. Shares used in the calculation of basic and diluted EPS were (in thousands):

	1996	1997	1998
Shares used in the calculation of Basic EPS (weighted average shares outstanding)	14,045	14,997	15,085
Effect of dilutive potential securities	451	-	236
Shares used in the calculation of Diluted EPS	14,496	14,997	15,321

The 1997 calculation of diluted EPS excluded the effect of dilutive potential securities aggregating 230,000 shares because to give effect thereto would have been antidilutive given the net loss for the year. 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 year. Such shares aggregated 218,000, 1,395,000 and 1,440,000 at December 31, 1996, 1997 and 1998, respectively.

Comprehensive income

The Financial Accounting Standards Board ("FASB") has issued SFAS No. 130, "Reporting Comprehensive Income", effective for fiscal years beginning after December 15, 1997. SFAS No. 130 requires companies to report another measure of operations called comprehensive income. This measure, in addition to "net income" includes as income or loss, the following items, which if present are included in the equity section of the balance sheet: 1) unrealized gains and losses on certain investments in debt and equity securities; 2) foreign currency translation; and 3) minimum pension liability adjustments. The Company has reported comprehensive income within the Consolidated Statement of Shareholders' Equity.

Derivative financial instruments

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". The new standard requires companies to record derivatives 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 would be accounted for depending on whether it qualifies for hedge accounting. The Company will be required to adopt this standard in the fiscal year beginning January 1, 2000. Management does not believe that the adoption of this statement will have a material impact on the financial statements.

The Company uses interest rate swaps to manage the interest risk associated with its variable rate debt. The Company accounts for interest rate swaps on the accrual method, whereby the net receivable or payable is recognized on a periodic basis and included as a component of interest expense. The Company does not trade in derivative securities.

The estimated fair value of cash and cash equivalents, accounts receivable, and accounts payable, approximate their carrying amount. The

estimated fair values and carrying amounts of long-term borrowings and interest rate swaps are as follows (in thousands):

	1997		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Swap agreements	$ -	$ -	$ -	$ (443)
Long-term debt (including current maturities)	(365,000)	(365,000)	(384,872)	(384,872)

Fair values were determined from quoted market prices or discounted cash flows.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts previously reported have been reclassified to conform to current year classifications.

Note 2 -- Business Acquisitions

On February 23, 1996, the Company acquired the business and certain assets of New Dimensions in Medicine, Inc. ("NDM") for a cash purchase price of approximately $31,600,000 and the assumption of $3,300,000 of net liabilities. The acquisition is being accounted for using the purchase method. Accordingly, the results of operations of the acquired business are included in the consolidated results of the Company from the date of acquisition. Goodwill associated with the acquisition is being amortized on a straight-line basis over a 40-year period.

On July 1, 1997, the Company completed the acquisition of a product line from Davol, Inc., a subsidiary of C.R. Bard, Inc., for a cash purchase price of $24,000,000. This acquisition is being accounted for using the purchase method. Accordingly, the results of operations of the acquired product line are included in the consolidated results of the Company from the date of acquisition. Goodwill associated with the acquisition is being amortized on a straight-line basis over a 40-year period.

On December 31, 1997, the Company acquired the business and certain assets of Linvatec Corporation, a wholly-owned subsidiary of Bristol-Myers Squibb Company, for a cash purchase price of $370,000,000 (Note 5) and the assumption of $28,600,000 of liabilities. Bristol-Myers Squibb Company also received a warrant to purchase 1,000,000 shares of the Company's common stock at $34.23 per share. This warrant expires December 31, 2007, and was valued at $10,625,000.

This acquisition is being accounted for using the purchase method. The allocation of purchase price resulted in identifiable intangible assets, including patents and technology ($9,000,000), trademarks and tradenames ($96,000,000) and customer relationships ($108,000,000), aggregating $213,000,000, which will be amortized over periods from 5 to 40 years. Goodwill associated with the Linvatec acquisition approximated $89,300,000 and will be amortized on a straight-line basis over a 40-year period. Additionally, a portion of the purchase price was allocated to purchased in-process research and development ("R&D"). Purchased in-process R&D includes the value of products in the development stage and not considered to have reached technological feasibility. In accordance with applicable accounting rules, purchased

in-process R&D is required to be expensed. Accordingly, $34,000,000 of the acquisition cost was expensed on December 31, 1997. The value assigned to purchased in-process R&D, based on a valuation prepared by an independent third-party appraisal company, was determined by identifying research projects in areas for which technological feasibility had not been established, including arthroscopic resection and procedure specific surgical instruments ($10,112,000), imaging technology for minimally invasive surgical procedures ($11,706,000), specialty surgical powered instruments ($8,386,000) and other ($3,796,000). The value was determined by estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from such projects, and discounting the net cash flows back to their present value using a discount rate of 13%. At the date of acquisition, remaining costs to complete these projects were $162,000 for arthroscopic resection and procedure specific, $281,000 for imaging technology, $424,000 for specialty surgical powered instruments and $840,000 for other projects. During 1998, these projects were either completed or abandoned. These projects ranged from 60% to 90% complete at the date of acquisition. Costs to complete these projects consist primarily of direct salaries and wages. Revenues from certain of these projects began in 1998.

In connection with the Linvatec acquisition, the Company entered into agreements with Zimmer, Inc., a wholly-owned subsidiary of Bristol-Myers Squibb Company, pursuant to which Zimmer has agreed to distribute certain of Linvatec's products for up to three years.

During 1998 goodwill for the Davol and Linvatec acquisitions increased by $1.7 million and $28.9 million, respectively. The Davol increase reflects severance ($1.5 million) and other costs associated with the 1998 closure of the former Davol manufacturing operation located in Kansas. The significant components of the increase in Linvatec goodwill include the finalization of unfunded employee benefit obligations assumed at the acquisition date ($7.5 million), payments for investment banking fees and professional fees related to the acquisition ($6.3 million), payments and the writedown of fixed assets in connection with the closure of Linvatec's San Dimas. California facility which was completed in 1998 ($4.0 million), and payments and accruals related to contingent liabilities assumed with the acquisition ($4.5 million).

On November 16, 1998, the Company acquired the assets related to an arthroscopy product line from Minnesota Mining and Manufacturing Company for a cash purchase price of $17,500,000. This acquisition is being accounted for using the purchase method. Accordingly, the results of operation of the acquired product line are included in the consolidated results of the Company from the date of acquisition. Goodwill associated with the acquisition is being amortized on a straight-line basis over a 40-year period.

The allocation of the purchase price for the arthroscopy product line acquisition referred to in the preceding paragraph is based on management's preliminary estimates. It is possible that re-allocation will be required as additional information becomes available. Management does not believe that such re-allocations will have a material effect on the Company's financial position or results of operations.

On an unaudited pro forma basis, assuming the completed acquisitions had occurred as of the beginning of the periods presented, the consolidated results of the Company would have been as follows (in thousands, except per share amounts):

	Year Ended December	
	1997	1998
Pro forma net sales	$351,395	$345,192
Pro forma income (loss) before extraordinary item	$ (8,624)	$ 19,505
Pro forma income (loss) per share before extraordinary item:		
Basic	$ (.58)	$ 1.29
Diluted	$ (.58)	$ 1.27

The unaudited pro forma financial information presented above gives effect to purchase accounting adjustments which have resulted or are expected to result from the acquisitions. This pro forma information is not necessarily indicative of the results that would actually have been obtained had the companies been combined for the periods presented.

Note 3 -- Inventories

The components of inventory are as follows (in thousands):

	1997	1998
Raw materials	$ 28,097	$ 35,204
Work in process	6,569	7,429
Finished goods	27,305	35,425
	$ 61,971	$ 78,058

Note 4 -- Property, Plant and Equipment

Details of property, plant and equipment are as follows (in thousands):

	1997	1998
Land and improvements	$ 2,011	$ 2,011
Building and improvements	22,319	27,966
Machinery and equipment	51,963	57,801
Construction in progress	314	2,416
	76,607	90,194
Less: Accumulated depreciation	(21,268)	(29,407)
	$ 55,339	$ 60,787

Rental expense on operating leases was approximately $327,000, $489,000 and $2,650,000 for the years ended December 31, 1996, 1997 and 1998, respectively. The aggregate future minimum lease commitments for operating leases at December 31, 1998 are as follows:

Year ending December 31 (in thousands):

1999	$ 2,559
2000	2,568
2001	2,588
2002	2,314
2003	2,280
Thereafter	12,963

Note 5 -- Long Term Debt

On December 30, 1997, in connection with the Linvatec acquisition (Note 2), the Company entered into a credit agreement with several banks providing for a $450,000,000 credit facility. The $450,000,000 credit facility is comprised of three sub-facilities: (i) a $210,000,000 five-year term loan with quarterly

principal repayments; (ii) a $140,000,000 seven-year term loan with quarterly principal repayments; and (iii) a $100,000,000 revolving credit facility. The revolving credit facility expires on December 30, 2002. During the commitment period, the Company is obligated to pay a fee of 0.5% per annum on the unused portion of the revolving credit facility. A covenant under the credit facility required the Company to complete a senior subordinated note offering, which was completed in March 1998 with the net proceeds of $126.1 million being used to reduce the term loans under the credit facility. Deferred financing fees related to the portion of the term loans repaid amounting to $2.5 million ($1.6 million net of income taxes) were written off in March 1998 as an extraordinary item.

As of December 31, 1998, the Company had $127,733,000, $89,139,000 and $38,000,000 outstanding under the five-year term loan, the seven-year term loan and the revolving credit facility, respectively. The borrowings under the credit facility carry interest rates based on a spread over LIBOR or an alternative base interest rate. The covenants of the credit facility provide for increase and decrease to this interest rate spread based on the operating results of the Company. Additionally, certain events of default under the credit facility limit interest rate options available to the Company. The weighted average interest rates at December 31, 1998 under the five-year term loan, the seven-year term loan and the revolving credit facility were 7.19%, 7.46% and 7.39%, respectively. The Company has entered into two interest rate swaps expiring in June 2001 which convert $100 million of floating rate debt under the Company's credit facility into fixed rate debt at rates ranging from 7.18% to 8.25%. Provisions in one of the interest rate swaps cancels such agreement when LIBOR exceeds 7.35%.

The term debt and revolving credit facility are collateralized by all the Company's personal property. The agreement contains covenants and restrictions which, among other things, require maintenance of certain working capital levels and financial ratios, prohibit dividend payments and restrict the incurrence of certain indebtedness and other activities, including acquisitions and dispositions. The Company is also required to make mandatory prepayments from net cash proceeds from any issue of equity and asset sales and also from any excess cash flow, as defined in the credit agreement. Mandatory prepayments will be applied first to the prepayment of the term loans and then to reduce borrowings under the revolving credit facility. The Company's 1998 operating results will meet excess cash flow provisions of the credit agreement and, accordingly, the Company expects to make mandatory prepayments on the term loans of approximately $16 million by March 31, 1999. Such amounts are classified as long-term, consistent with the maturity date of the revolving credit facility. The significant portion of the prepayment amount will be borrowed under the Company's revolving credit facility. Coincident with this mandatory repayment, it is expected that the interest rate on the term loans and revolving credit facility will be reduced by 0.25%.

As discussed above, the Company issued $130,000,000 of 9% Senior Subordinated Notes ("Notes"). The Notes mature on March 15, 2008, unless previously redeemed by the Company. Interest on the Notes is payable semi-annually on March 15 and September 15 of each year. The Notes are redeemable for cash at anytime on or after March 15, 2003, at the option of the Company, in whole or in part, at the redemption prices set forth therein, plus accrued and unpaid interest to the date of redemption. In addition, on or before March 15, 2001, the Company may, at its option, redeem up to 35% of the aggregate principal amount of the Notes originally issued with the net proceeds of one or more offerings of common stock of the Company for cash at a redemption price of 109% of the principal amount thereof plus accrued and unpaid interest to the date of redemption; provided that at least 65% of the aggregate principal amount of the Notes remain outstanding after giving effect to any such redemption.

The scheduled maturities of long-term debt outstanding at December 31, 1998 are as follows: 1999 -- $23,000,000; 2000 -- $32,600,000; 2001 -- $35,800,000; 2002 -- $76,900,000; 2003 -- $41,700,000; thereafter -- $174,900,000.

The credit facility (including the term loans and the revolving credit facility) is guaranteed on a secured basis, and the Notes are guaranteed (the

"Subsidiary Guarantees") by the Company's subsidiaries (the "Subsidiary Guarantors"). The Subsidiary Guarantees provide that each Subsidiary Guarantor will fully and unconditionally guarantee the Company's obligations under the credit facility and the Notes on a joint and several basis. Each Subsidiary Guarantor is wholly-owned by the Company.

Separate financial statements and other disclosures concerning the Subsidiary Guarantors are not presented because management has determined such financial statements and other disclosures are not material to investors. The combined condensed financial information of the Company's Subsidiary Guarantors is as follows (in thousands):

	December 31, 1997	1998
Current assets	$ 54,799	$ 96,434
Non-current assets	327,751	359,499
Current liabilities	15,339	30,367
Non-current liabilities	345,826	354,063

	Year Ended December 1996	1997	1998
Revenues	$53,015	$51,376	$239,491
Operating income (loss)	16,731	(16,452)	45,529
Net income (loss)	10,708	(10,529)	7,639

Note 6 -- Income Taxes

The provision for income taxes consists of the following (in thousands):

	1996	1997	1998
Current tax expense:			
Federal	$ 6,398	$ 6,677	$ 1,652
State	311	492	258
Foreign	--	--	210
	6,709	7,169	2,120
Deferred income tax expense (benefit)	2,452	(10,809)	8,779
Provision (benefit) for income taxes	$ 9,161	$ (3,640)	$10,899

A reconciliation between income taxes computed at the statutory federal rate and the provision for income taxes follows (in thousands):

	1996	1997	1998
Tax provision at statutory rate based on income before Income taxes and extraordinary item	$ 8,906	$ (3,747)	$ 10,899
Foreign sales corporation	(318)	(300)	(313)
State taxes	202	313	165
Nondeductible intangible amortization	280	224	243
Other, net	91	(130)	(95)
	$ 9,161	$ (3,640)	$ 10,899

The tax effects of the significant temporary differences which comprise the deferred tax assets and liabilities at December 31, 1997 and 1998 are as follows (in thousands):

	1997	1998
Assets:		
Receivables	$ 315	$ 290
Inventory	518	1,002
Deferred compensation	432	511
Employee benefits	210	181
Other	682	1,056
Leases	928	373
Goodwill and intangible assets	12,168	4,400
Birtcher net operating losses	5,105	4,681
Valuation allowance for deferred tax assets	(5,105)	(4,681)
	15,253	7,813
Liabilities:		
Depreciation	1,745	1,044
Interest charge DISC	57	28
Other	770	65
	2,572	1,137
	$ 12,681	$ 6,676

Net operating losses of the Company's Birtcher Medical Systems, Inc. subsidiary are subject to certain limitations and expire over the period 2008 to 2010. Management has established a valuation allowance of $4,681,000 to reflect the uncertainty of realizing the benefit of certain of these carryforwards. Further utilization of Birtcher operating loss carryforwards will serve to decrease goodwill associated with the Birtcher acquisition.

Note 7 -- Shareholders' Equity

The shareholders have authorized 500,000 shares of preferred stock, par value $.01 per share, which may be issued in one or more series by the Board of Directors without further action by the shareholders. As of December 31, 1998, no preferred stock had been issued.

In March 1996, the Company completed a public offering of 2,998,000 shares of its common stock with net proceeds to the Company amounting to $61,735,000.

Through the Company's 1989 acquisition of Aspen Laboratories, Inc., Bristol-Myers Squibb Company received a warrant to purchase 698,470 shares of the Company's common stock at $4.29 per share. This warrant was exercised in March 1996 with proceeds to the Company amounting to $3,000,000.

In connection with the Linvatec acquisition (Note 2), the Company issued to Bristol-Myers Squibb Company a ten-year warrant to purchase 1.0 million shares of the Company's common stock at a price of $34.23 per share.

During 1997, the Company was authorized to repurchase up to $30,000,000 of its common stock in the open market or in private transactions. The Company repurchased 25,000 shares of common stock in 1997 at an aggregate price of $419,000. The new credit agreement (Note 5) prohibits future repurchases of common stock during its term.

The Company has reserved shares of common stock for issuance to employees and directors under three Stock Option Plans (the "Plans"). The option price on all outstanding options is equal to the estimated fair market value of the stock at the date of grant. Stock options are non-transferable other than on death and generally become exercisable over a five year period from date of grant and expire ten years from date of grant.

The following is a summary of incentive stock option activity under the Plans (in thousands, except per share amounts):

	Number of Shares	Weighted-Average Exercise Price
Outstanding at December 1995	1,240	$ 10.12
Granted during 1996	197	23.07
Forfeited	(10)	8.10
Exercised	(292)	4.14
Outstanding at December 1996	1,135	13.92
Granted during 1997	153	22.99
Forfeited	(10)	10.09
Exercised	(73)	9.01
Outstanding at December 1997	1,205	15.39
Granted during 1998	509	23.64
Forfeited	(93)	24.44
Exercised	(121)	8.99
Outstanding at December 1998	1,500	$ 17.90
Exercisable:		
December 1996	559	$ 9.96
December 1997	690	10.12
December 1998	856	14.24

At December 31, 1998, the number of stock options outstanding with exercise prices less than $10, between $10 and $20, and greater than $20 were 152,000, 601,000 and 747,000, respectively. The weighted average price per share and remaining life for options in these categories were $5.74 and 3 years, $12.63 and 5 years, and $24.62 and 9 years, respectively. The number of shares exercisable at December 31, 1998 and the related weighted average price per share for options in these categories were 148,000 shares at $5.75, 506,000 shares at $12.00 and 202,000 shares at $26.09, respectively.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 defines a fair value based method of accounting for an employee stock option whereby compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period. A company may elect to adopt SFAS No. 123 or elect to continue accounting for its stock option or similar equity awards using the method of accounting prescribed by Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees", where compensation cost is measured at the date of grant based on the excess of the market value of the underlying stock over the exercise price. The Company has elected to continue to account for its stock-based compensation plans under the provisions of APB No. 25. No compensation expense has been recognized in the accompanying financial statements relative to the Company's stock option plans.

Pro forma information regarding net income (loss) and net income (loss) per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The weighted average fair value of options granted in 1996, 1997 and 1998 was $12.95, $11.87 and $11.57, 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 1996, 1997 and 1998, respectively: Risk-free interest rates of 6.45%, 5.96% and 5.41%; volatility factors of the expected market price of the Company's common stock of 54.31%, 51.31% and 48.72%; 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 (in thousands, except for earnings per share information):

	1996	1997	1998
Net income (loss)-- as reported	$16,286	$(7,065)	$17,808

Net income (loss)-- pro forma	15,299	(7,427)	15,420
EPS -- as reported:			
Basic	1.16	(0.47)	1.18
Diluted	1.12	(0.47)	1.16
EPS -- pro forma:			
Basic	1.09	(0.50)	1.02
Diluted	1.06	(0.50)	1.01

The pro-forma disclosures include only options granted after January 1, 1995.

Note 8 -- Business Segments, Geographic Areas and major Customers

Effective December 31, 1998, the Company adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." CONMED's business is organized, managed and internally reported as a single segment comprised of medical instruments and systems used in surgical and other medical procedures. The Company believes its various product lines have similar economic, operating and other related characteristics.

Information in the table below is presented on the basis the Company uses to manage its business. Export sales are reported within the geographic area where the final sales to customers are made (in thousands).

	United States	Europe and Middle East	Asia Pacific	Latin America Africa and Canada	Total Company
1998	$266,668	$ 31,134	$ 26,974	$ 11,666	$336,442
1997	118,673	8,000	8,521	3,076	138,270
1996	107,626	7,850	7,632	2,522	125,630

There were no significant investments in long-lived assets located outside the United States at December 31, 1997 and 1998.

The Company uses medical supply distributors to distribute certain products to their end users (Note 1). Sales to one distributor totaled 14.5% and 15.3% of the Company's sales in 1996 and 1997, respectively. Sales to another distributor totaled 12.2% of the Company's sales in 1996.

Note 9 -- Pension Plans

The Company maintains defined benefit plans covering substantially all employees. The Company makes annual contributions to the plans equal to the maximum deduction allowed for federal income tax purposes.

Net pension cost for 1996, 1997 and 1998 included the following components (in thousands):

	1996	1997	1998
Service cost-- benefits earned during the period	$ 766	$ 925	$2,324
Interest cost on projected benefit obligation	402	436	1,143
Expected return on plan assets	(336)	(395)	(1,046)
Net amortization and deferral	32	44	27
Net pension cost	$ 864	$ 1,010	$2,448

The following table sets forth the plan's funded status and amounts recognized in the Company's consolidated balance sheets at December 31, 1997 and 1998 (in thousands):

	1997	1998
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 6,112	$17,050
Service cost	925	2,324

Interest cost	436	1,143
Actuarial loss (gain)	148	(195)
Acquisition	9,557	-
Benefits paid	(128)	(786)
Projected benefit obligation at end of year	$17,050	$19,536
Change in plan assets		
Fair value of plan assets at beginning of year	$ 4,405	$13,514
Actual return on plan assets	536	773
Acquisition	7,552	-
Employer contribution	1,149	-
Benefits paid	(128)	(786)
Fair value of plan assets at end of year	$13,514	$13,501
Change in funded status		
Funded status	$ 3,536	$ 6,035
Unrecognized net actuarial loss	(806)	(872)
Unrecognized transition liability	(72)	(68)
Unrecognized prior service cost	(184)	(173)
Accrued pension cost	$ 2,474	$ 4,922

For 1996, 1997 and 1998 actuarial calculation purposes, the weighted average discount rate was 7.0%, the expected long term rate of return was 8.0% and the rate of increase in future compensation levels was 4.0%.

Note 10 -- Legal Matters

From time to time, the Company has been named as a defendant in certain lawsuits alleging product liability or other claims incurred in the ordinary course of business. These claims are generally covered by various insurance policies, subject to deductible amounts and maximum policy limits. Ultimate liability with respect to these contingencies, if any, is not considered to be material to the consolidated financial statements of the Company.

Note 11 -- Unusual Items

The unusual items for the year ended December 31, 1997 consist of the following (in thousands):

Write-off of purchased in-process R&D (Note 2)	$ 34,000
Facility consolidations	2,328
Write-off of deferred financing costs (Notes 2 and 5)	914
	$ 37,242

During the first quarter of 1997, the company recorded a charge of $2,328,000 related to the closure of the Company's Dayton, Ohio manufacturing facility. Operations of the Dayton facility, which were acquired in connection with the 1996 acquisition of NDM (Note 2), were transferred to the Company's Utica and Rome, New York facilities. The components of the charge consisted primarily of costs associated with employee severance and termination, and the impairment of the carrying value of fixed assets.

Note 12 -- Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data for 1997 and 1998 are as follows (in thousands, except per share amounts):

	Three Months Ended			
	March	June	September	December
1997				

Net sales.....	$ 31,472	$ 30,707	$ 38,581	$ 37,510
Gross profit.....	14,997	14,448	16,980	17,625
Unusual item.....	2,328	-	-	34,914
Net income (loss).....	2,460	3,473	4,518	(17,516)
Earnings per share:				
Basic.....	0.16	0.23	0.30	(1.17)
Diluted.....	0.16	0.23	0.30	(1.17)

	March	June	September	December
1998				
Net sales.....	$ 80,242	$ 80,513	$ 85,714	$ 89,973
Gross profit.....	35,860	39,639	44,593	46,751
Net income.....	882	4,547	5,921	6,458
Earnings per share:				
Basic.....	0.06	0.30	0.39	0.43
Diluted.....	0.06	0.30	0.39	0.42

As discussed in Note 11, the Company recorded several unusual items in the first and fourth quarters of 1997. As discussed in Note 5, the Company recorded an extraordinary charge in March 1998 related to the write-off of deferred financing fees of approximately $2.5 million (10 cents per share).

SCHEDULE VIII--Valuation and Qualifying Accounts
(in thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts	Deductions	Balance at End of Period
1998					
Allowance for bad debts..	$ 2,708	$ 459		$ (954)	$2,213
Inventory reserves.....	$ 7,411	$ 918	$ (61)	$(1,650)	$6,618
Deferred tax asset					
Valuation allowance.....	$5,105			$ (424)	$4,681
1997					
Allowance for bad debts..	$ 500	$887	$1.808	$ (487)	$2,708
Inventory reserves.....	$ 462	$277	$6,672		$7,411
Deferred tax asset					
Valuation allowance.....	$5,417			$ (312)	$5,105
1996					
Allowance for bad debts..	$ 400	$337		$ (237)	$ 500
Inventory reserves.....	$ 504	$267		$ (309)	$ 462
Deferred tax asset					
valuation allowance.....	$5,417				$5,417

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (this "Agreement") is made and entered into as of this 8th day of October, 1998 by and between Linvatec Corporation, a Florida corporation (the "Linvatec"), and Minnesota Mining and Manufacturing Company, a Delaware corporation ("3M").

WHEREAS, 3M, through its Medical Surgical Division (the "Division"), engages in the business of manufacturing and selling certain arthroscopic fluid control products and directly associated arthroscopic instruments (the manufacture and sale of such products through such Division being herein called the "Business"). Arthroscopy is the endoscopic examination of the interior of a joint, and a joint is the articulating surfaces between bones. Obviously, arthroscopic products do not include the so-called carpal tunnel release system or similar products, which are not used in joints.

WHEREAS, 3M now desires to exit the Business without interrupting the availability of products and customer support and Linvatec desires to purchase and acquire the assets of the Business, all on the terms and conditions set forth in this Agreement.

WHEREAS, Linvatec wishes to purchase the Business in a manner that causes as little disruption as possible to customers of and the profitability of the Business.

WHEREAS, 3M now desires to sell and Linvatec desires to purchase and acquire certain assets of the Business, all on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties agree as follows:

ARTICLE I
Definitions

1.01 Purchased Assets. The term "Purchased Assets" or any variation thereof as used in this Agreement shall mean the assets to be sold, assigned, transferred and conveyed by 3M to Linvatec pursuant to Article II hereof.

1.02 3M Products. The term "3M Products" or "3M Product Line" or any variation thereof as used in this Agreement shall mean those 3M products manufactured or sold through the Division described in the attached Schedule 1.02. .

1.03 Assumed Liabilities. The term "Assumed Liabilities" or any variation thereof as used in this Agreement shall mean the liabilities and obligations to be assumed by Linvatec pursuant to Article IV hereof.

1.04 Purchased Intellectual Property. The term "Purchased Intellectual Property" means patents, patent applications, utility model registrations, design patents, trademarks (if any), trade secrets and know-how owned by 3M on the Closing Date that directly and solely relate to the Business as conducted on the Closing Date and are listed in Schedule 1.04, but excluding components and materials supplied to the Business by other businesses of 3M.

1.05 Licensed Intellectual Property. The term "Licensed Intellectual Property" means patents, patent applications, utility model registrations, design patents, trade secrets and know-how owned by 3M on the Closing Date that are used directly in both the Business as conducted on the Closing Date and 3M's cardiovascular perfusion/surgical business, but excluding Components and Materials supplied to the Business by other businesses of 3M.

1.06 IP Agreements. The term "IP Agreements" means those agreements licensing patents to or from 3M that directly and solely relate to the Business as conducted on the Closing Date and are listed in Schedule 1.06, excluding however supplier, distribution, consulting and confidentiality

agreements.

1.07 Sublicensed IP Agreement. The term "Sublicensed IP Agreement" means the Automotive Supplier Agreement dated 22nd September 1998 between the Lemelson Medical, Education and Research Foundation, Limited Partnership and 3M.

1.08 Adverse Material Change. The term "Adverse Material Change" shall mean any change that significantly affects the valuation of the Business.

ARTICLE II
Sale of Assets

2.01 Purchased Assets. Subject to the terms and conditions hereof, 3M agrees to sell, assign, transfer and convey to Linvatec, and Linvatec agrees to purchase and acquire from 3M, at the Closing (as hereinafter defined) on the Closing Date (as hereinafter defined), all of 3M's right, title and interest, if any, immediately prior to the effective time of the Closing in and to the following assets wherever located:

(a) the fixed assets, machinery, manufacturing equipment, laboratory and test equipment and 3M Product specifications, drawings and manufacturing processes documents and office equipment used in the Business as specified in Schedule 2.01(a).

(b) [intentionally deleted]

(c) Purchased Intellectual Property as provided in Article VI; and

(d) the records directly and solely related to the 3M Product Line and the Purchased Assets.

(e) the purchase orders directly and solely related to the 3M Product Line, the Purchased Assets or the Business issued by or to 3M in the ordinary course of business;

(f) Subject to Section VI (Intellectual Property), the leases, contracts and written agreements related to the 3M Product Line, the Purchased Assets or the Business as conducted on the Closing Date to the extent transferable (all non-assignable contracts are identified in Schedule 2.01(f) (Non-assignable contracts)), with 3M being required to secure the assignment or transfer of all such agreements pursuant to Section 8.03.

2.02 Excluded Assets. It is understood and agreed that the following assets of the Business are excluded from the Purchased Assets: (i) cash; (ii) accounts receivable; and (iii) any items listed in Schedule 2.02 (Excluded Assets).

2.03 [Intentionally excluded]

2.04 Retention of Certain Records. It is understood and agreed that 3M reserves the right to retain copies or written records of the items referred to in Sections 2.01(c) and (d) for the purpose of defending any claims, losses, causes of action or lawsuits, including those related to the sale of the 3M Product Line by 3M, and for the purpose of preparing any tax returns or financial statements or reports, provided that 3M shall maintain the confidentiality of such documents and shall promptly notify Linvatec of any lawsuit or claim served upon 3M relating to the Business and/or records or documents.

ARTICLE III
Purchase Price

3.01 Purchase Price and Payment. ln consideration for the Purchased Assets, Linvatec agrees to pay to 3M seventeen million five hundred thousand Dollars ($17,500,000.00) (the "Purchase Price"). The Purchase Price

shall be payable in cash at the Closing by wire transfer of immediately available federal funds to 3M at Norwest Bank, Minnesota, N.A., Minneapolis, Minnesota, ABA #091 000 019, credit to 3M General Account #30103.

3.02 Allocation of Total Purchase Price. It is understood and agreed by the parties that, except as hereinafter provided, the Purchase Price shall be allocated among the Purchased Assets in accordance with the attached Exhibit A, and that said allocation will be used for state and federal tax purposes. Each party acknowledges that such allocation is consistent with the requirements of Section 1060 of the Internal Revenue Code 1986, as amended, and the regulations thereunder. Each party agrees (i) to jointly complete and separately file Form 8594 with its federal income tax return for the tax year in which the Closing Date occurs, and (ii) that such party will not take a position on any income, transfer or gains tax return before any governmental agency charged with the collection of any such tax or in any judicial proceeding, that is in any manner inconsistent with the terms of such allocation without the written consent of the other party. Notwithstanding anything to the contrary provided herein, neither party shall be bound by such allocation in the event the Internal Revenue Service or another tax authority successfully challenges the allocation. In the event of any challenge to such allocation by the Internal Revenue Service or another tax authority, the parties will give each other notice of the challenge and advise each other periodically of the status of such challenge and reasonably cooperate with each other with respect to such challenge.

3.03 Sales, Use and Transfer Taxes. Linvatec shall be responsible for all sales, use and transfer taxes, deed taxes and recording fees, if any, in each case applicable to the sale and transfer of the Purchased Assets hereunder. Linvatec will furnish 3M at the Closing with properly executed exemption certificates, dated the Closing Date, relating to the supplies and manufacturing equipment being transferred pursuant to this Agreement as to which Linvatec is claiming an exemption from sales, use or other transfer taxes.

ARTICLE IV
Assumption of Liabilities

4.01 Assumption of Liabilities. Subject to the terms and conditions hereof and subject to Article VI (Intellectual Property), at the Closing, Linvatec shall assume and agree to carry out and perform all of the following liabilities and obligations which have not been paid, performed or discharged prior to the effective time of the Closing by 3M:

(a) all obligations of 3M payable or performable after the Closing Date under any of the licenses, purchase orders, leases, contracts, or written agreements included in the Purchased Assets, but excluding raw material and component parts purchases made by 3M in connection with 3M's performance under the Supply Agreement, (collectively, the "Contracts"), the Sublicensed IP Agreement and the IP Agreements;

(b) all warranty obligations of 3M with respect to 3M Products sold on or prior to the Closing Date, as set forth in the attached Schedule 4.01(b); and

(c) such other liabilities of the Business related to the 3M Product Line, the Purchased Assets or the Business arising after the Closing.

(d) the language of Section 4.01(a)-(c) notwithstanding, Linvatec shall not be responsible for any taxes or liens upon the Purchased Assets that arise from pre-Closing facts or circumstances.

ARTICLE V
Representations and Warranties

5.01 3M Representations. 3M hereby represents and warrants as follows:

(a) Organization of 3M. 3M is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware

(b) Authority of 3M. 3M has full corporate power and authority to execute, deliver and perform this Agreement and each of the Transaction Documents (as hereinafter defined) to be entered into by it at the Closing, and such execution, delivery and performance have been duly authorized by all necessary and proper corporate action of 3M. This Agreement has been duly executed and delivered by 3M, and (assuming due authorization, execution and delivery hereof by Linvatec) is the valid and binding obligation of 3M enforceable against 3M in accordance with its terms (except as such enforceability may be limited by bankruptcy, reorganization, insolvency, moratorium and other similar laws affecting creditors' rights generally or by general principles of equity.) Upon execution and delivery thereof by 3M at the Closing (and assuming due authorization, execution and delivery thereof by Linvatec, to the extent applicable), each of the Transaction Documents to be entered into by 3M at the Closing will be the valid and binding obligation of 3M enforceable against 3M in accordance with its terms (except as such enforceability may be limited by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights generally or by general principles of equity).

(c) Title to Purchased Assets. Except as set forth in Schedule 5.01(c), Article VI (Intellectual Property) or elsewhere in this Agreement, 3M has or will have at the Closing title to the Purchased Assets, free and clear of all mortgages, liens, security interests, claims, tax liabilities, charges and encumbrances.

(d) Contracts. The attached Schedule 5.01(d) lists, as of the date of this Agreement, all leases, contracts, agreements and commitments related to the 3M Product Line, other than those IP agreements listed on Schedule 1.06, the Purchased Assets or the Business to which 3M is a party or by which 3M is bound and which involve payments of more than $10,000 per annum, excluding purchase orders issued by or to 3M in the ordinary course of business.

(e) No Brokers. With respect to the transactions contemplated by this Agreement, 3M has not dealt with or been contacted by any finder or broker and is not in any way obligated to compensate such persons.

(f) Compliance with Law. To 3M's knowledge, the Business is not in violation of any law, ordinance or regulation of any governmental entity, which violations would have Adverse Material Change. To 3M's knowledge, all governmental approvals, permits, licenses and other authorizations required in connection with the conduct of any material aspect of the Business (collectively, "Governmental Authorizations") have been obtained and are in full force and effect and are being complied with in all material respects. However, 3M has the authorization to CE mark only model 83100 tubesets. 3M has not received any written notification of any asserted past or present violation in connection with the conduct of the Business of any law, ordinance or regulation, which violation would have a Adverse Material Change, or any written complaint, inquiry or request for information from any governmental entity relating thereto. 3M represents that to 3M's knowledge none of the 3M Products are subject to a recall, or need to be recalled.

(g) FDA Approval Status. 3M warrants that to 3M's knowledge, all 3M

Products including any accessories currently are being marketed in compliance with all Food and Drug Act and other legal requirements.

(h) Completeness of Purchased Assets. The Purchased Assets constitute all assets necessary for 3M, or used by 3M in, the conduct of the Business, particularly the manufacture of the 3M Products, except those assets identified on Schedule 2.02 as the Excluded Assets or intellectual property, which is governed by Article VI.

(i) Financials. The financial statements provided by 3M and attached hereto as Schedule 5.01(i) are true and accurate in all material respects, have been derived from the books and records of 3M that have been prepared and maintained in accordance with Generally Accepted Accounting Principles (GAAP).

(j) Claims Status. 3M is unaware of any claims that are being asserted other than those already disclosed, with respect to product liability, regulatory or other claims.

(k) Intellectual Property. 3M's disclaims any representation or warranty provided in this Agreement as it might be construed to apply to intellectual property except as provided in Article VI (Intellectual Property).

5.02 Linvatec Representations. Linvatec hereby represents and warrants as follows:

(a) Organization of Linvatec. Linvatec is a corporation duly organized, validly existing and in good standing under the laws of the State of Florida.

(b) Authority of Linvatec. Linvatec has full corporate power and authority to execute, deliver and perform this Agreement and each of the Transaction Documents to be entered into by it at the Closing, and such execution, delivery and performance have been duly authorized by all necessary and proper corporate action of Linvatec. This Agreement has been duly executed and delivered by Linvatec, and (assuming due authorization, execution and delivery hereof by 3M) is the valid and binding obligation of Linvatec enforceable against Linvatec in accordance with its terms (except as such enforceability may be limited by bankruptcy, reorganization, insolvency moratorium and other similar laws affecting creditors' rights generally or by general principles of equity). Upon execution and delivery thereof by Linvatec at the Closing (and assuming due authorization, execution and delivery thereof by 3M, to the extent applicable), each of the Transaction Documents to be entered into by Linvatec at the Closing will be the valid and binding obligation of Linvatec enforceable against Linvatec in accordance with its terms (except as such enforceability may be limited by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights generally or by general principles of equity).

(c) Financial Ability of Linvatec. Linvatec has available cash and/or existing committed borrowing facilities sufficient to enable it to consummate the transactions contemplated by this Agreement.

(d) No Brokers. With respect to the transactions contemplated by this Agreement, Linvatec has not dealt with or been contacted by any finder or broker and is not in any way obligated to compensate such persons.

ARTICLE VI
Intellectual Property

6.01 Intellectual Property Recitals. The transfer of intellectual property, and any representations or warranties regarding intellectual property by 3M, are exclusively controlled by this Article. 3M disclaims any warranty or representation provided elsewhere in this Agreement as it might be construed to apply to intellectual property owned, licensed or controlled by 3M or any third party intellectual property right. Except as provided in this Article, intellectual property is being transferred or licensed on an "AS IS" basis. The general intent of this Article is to transfer or license to Linvatec sufficient intellectual property rights (to the extent transferable) that are owned or licensed to 3M to allow Linvatec to conduct the Business in the same manner it was conducted by 3M on the Closing Date, excluding however intellectual property rights relating to components or materials supplied to the Business by other businesses of 3M. This also means, however, that if 3M has or is infringing any third party intellectual property right on or before the Closing Date, Linvatec does not expect to be put into a better position relative to such third party intellectual property right than 3M is on the Closing Date, and that Linvatec will be responsible for any infringement of third party intellectual property rights on products sold after the Closing Date.

6.02 Purchased Intellectual Property. Subject to the terms and conditions hereof, 3M agrees to sell, assign, transfer and convey to Linvatec, and Linvatec agrees to purchase and acquire from 3M, at the Closing on the Closing Date, all of 3M's right, title and interest, if any, immediately before the effective time of the Closing in and to the following assets:

(a) The technology and know-how within Purchased Intellectual Property to the extent transferable by 3M, subject to a worldwide, non-exclusive, royalty-free, assignable license, with the right to sublicense, from Linvatec back to 3M of any technology and know-how within the field of cardiovascular perfusion products and equipment and cardiovascular surgical products and equipment;

(b) The patents, applications for patents, utility model registrations and design patents within Purchased Intellectual Property, subject to a worldwide, non-exclusive, royalty-free, assignable license, with the right to sublicense, from Linvatec back to 3M of any such rights within the field of cardiovascular perfusion products and equipment and cardiovascular surgical products and equipment, and subject to any agreement listed in Schedule 1.06 (If any royalties are due to a third party under an IP Agreement due to 3M's sales under its license provided herein, however, 3M will pay those royalties to Linvatec so that they may be passed through to the third party);

(c) Any unregistered trademarks (and the goodwill of the business in which any such trademarks are used and which is symbolized by said trademarks), if any, and copyrights within Purchased Intellectual Property to the extent transferable by 3M, subject to any agreement listed in Schedule 1.06.

(d) Any IP Agreement to the extent transferable by 3M. 3M's obligation with respect to transferability of any IP Agreement are provided in Section 8.03 (Unassignable Contracts) to the extent the mechanism provided in Section 8.03 would not constitute a breach of the IP Agreement.

6.03 Licensed Intellectual Property. Effective on the Closing Date, 3M hereby grants to Linvatec a fully-paid up, non-cancelable, worldwide, non-exclusive license under Licensed Intellectual Property to use such rights within the field of orthopedic devices, including without limitation the right to make, have made, use, sell, offer for sale, lease, import, export or otherwise dispose of products, and the right to sublicense to customers or suppliers as part of the manufacture or sale of products, or assign such license to any assignee or successor of the Business. It is believed that there are no patents, patent applications, utility model registrations, or design patents

within Licensed Intellectual Property, and thus this Section shall be construed to grant the described license to the extent that the parties discover that this belief is incorrect. Various products of the Business are manufactured or assembled at a common site with 3M's cardiovascular perfusion/surgical products business, and there may be trade secrets and know-how within Licensed Intellectual Property that apply or are applicable to both the Business and 3M's cardiovascular perfusion/surgical products business. This Section will be construed to allow Linvatec and 3M to use such trade secrets and know-how within their respective fields without breaching this Agreement or being sued for misappropriation or infringement by the other party.

6.04 Trade Name and Trademark Restrictions. It is understood and agreed that this Agreement does not constitute an agreement to transfer to Linvatec the right to use: (i) the name 3M, (ii) any 3M corporate logo alone, or (iii) any combination of any other mark or symbol with any of the marks identified in Sections 6.04(i) or 6.04(ii), except as provided in Section 6.05.

6.05 Removal of 3M Trade Names. Within a reasonable period of time not to exceed 120 days after expiration or termination of the Supply Agreement but in no event longer than eighteen months after the Closing Date, Linvatec shall remove all trade names and trademarks of 3M not included in the Purchased Assets from all assets transferred to Linvatec hereunder; provided, however, that it is understood and agreed that with respect to product literature and other assets where removal of such trade names or trademarks would result in damage to such asset, Linvatec may instead relabel such assets to conceal such trade names or trademarks.

6.06 Intellectual Property Agreement Assumptions. Linvatec agrees to assume all of 3M's obligations, duties, liabilities and commitments pursuant to the IP Agreements including but not limited to any obligation for 3M to pay any royalty. Linvatec agrees to forever hold 3M harmless, defend 3M and indemnify 3M for any damages, penalties or expenses incurred, including reasonable attorney expenses, with respect to any claim or cause of action of any description (regardless of the theory of liability) related to the alleged breach of Linvatec's or 3M's or assumed obligations under the IP Agreements. Without limiting the generality of the previous portion of this section, Linvatec agrees to forever hold 3M harmless, defend 3M and indemnify 3M for any damages with respect to a) any cause of action alleging that any third party is entitled to a royalty for sales after the Closing Date pursuant to the IP Agreements, or b) any cause of action for a breach of any of the IP Agreements arising out of this Agreement or the assignment of any IP Agreement to Linvatec. The consideration paid by Linvatec for the transfer of the IP Agreements shall include the assumption by Linvatec of the duties, liabilities, obligations and commitments relating to the Intellectual Property Agreements as set forth in this Section of the Agreement.

6.07 Warranties. 3M hereby warrants and represents, to its knowledge, as follows:

(a) 3M has title to the patents, patent applications, design patents and utility model registrations listed in Schedule 1.04. In addition, such title is subject to or encumbered by the agreements listed in Schedule 1.06;

(b) Neither 3M's Office of Intellectual Property Counsel nor 3M senior executive management have received any unresolved written claim since October 1, 1992 from any third party charging 3M with infringement of any intellectual property right in connection with 3M's conduct of the Business, except as provided in Schedule 6.07(b);

(c) Schedule 1.04 represents a complete list of patents, patent applications, design patents and utility model registrations for which 3M has title that directly and solely relate to the Business as conducted on the Closing Date, except for any patent, patent application, design patent and utility model registration for which 3M requested an outside counsel or International patent firm to abandon more than six (6) months

before the Closing Date;

(d) Schedule 1.06 represents a complete list of IP Agreements; and

(e) 3M's Office of Intellectual Property Counsel has not received any unresolved written claim since October 1, 1996 from any third party claiming 3M is in breach of any IP Agreement in connection with 3M's conduct of the Business, except as provided in Schedule 6.07(e).

6.08 Notice, Correction of Schedules. Linvatec will provide 3M with prompt written notice identifying any item not listed on Schedule 1.04, 1.06, 6.07(b) or 6.07(e) that Linvatec comes to believe belongs on Schedule 1.04, 1.06, 6.07(b) or 6.07(e) along with an explanation as to why such missing item belongs on Schedule 1.04, 1.06, 6.07(b) or 6.07(e). If 3M and Linvatec agree that such item should have been listed, then 3M will use its best efforts to provide a revised Schedule listing the missing item, subject to Section 8.03 (Unassignable Contracts) to the extent Section 8.03 would not constitute a breach of any agreement that belongs on Schedule 6.07(b). At any time before the Closing Date, 3M will have the unilateral right to add items to Schedules 1.04, 1.06, 6.07(b) or 6.07(e), although Linvatec will have the right to terminate this Agreement pursuant to Section 11.01(e) if such addition constitutes an Adverse Material Change.

6.09 Disclaimers. LINVATEC ACKNOWLEDGES THAT 3M HAS DISCLAIMED (i) ANY REPRESENTATION OR WARRANTY OF INVENTORSHIP, TRANSFERABILITY, VALIDITY, ORIGINALITY, ENFORCEABILITY, RELATIONSHIP TO ANY OTHER INTELLECTUAL PROPERTY (E.G., WHETHER PATENTS ARE COUNTERPARTS OR EQUIVALENTS), NON-INFRINGEMENT, RIGHT-TO-PRACTICE, SCOPE, STATUS (PENDING OR ISSUED) OR PRIORITY OF ANY INTELLECTUAL PROPERTY RIGHT AND ANY AGREEMENT RELATING TO INTELLECTUAL PROPERTY; (ii) ANY REPRESENTATION OR WARRANTY WITH RESPECT TO RIGHT TO PRACTICE AND WHETHER ANY THIRD PARTY INTELLECTUAL PROPERTY RIGHT IS OR WOULD BE INFRINGED BY THE BUSINESS, 3M PRODUCTS OR 3M PRODUCT LINE, AND (iii) ANY REPRESENTATION OR WARRANTY REGARDING THE STATUS OF ANY IP AGREEMENT (FOR EXAMPLE, WHETHER THE AGREEMENT IS BEING BREACHED).

6.10 Assignment Documents. Linvatec agrees to deliver to 3M at the Closing assignment or transfer documents consistent with this Agreement and reasonably acceptable to 3M of patents, patent applications, utility model registrations, design patents, patent licenses assigned in this Article.

6.11 No Implied IP Transfers. It is expressly understood and agreed that, other than the intellectual property expressly identified in Article VI of this Agreement (and related Schedules thereof), this Agreement does not transfer to Linvatec any interest in any intellectual property rights.

6.12 Dispute Resolution. Any dispute regarding the terms or conditions of this Article or either party's performance or alleged breach of any term or condition of this Article will be subject to the dispute resolution provisions of section 11.02 except that 3M's Medical Markets Group Intellectual Property Counsel will be substituted for the Medical Markets Group Counsel in section 11.02(a).

6.13 Indemnity, Notice. This Article will be subject to the provisions of Article X. In addition, effective eighteen months after the Closing Date, Linvatec hereby releases 3M from any claim (whether known or unknown) relating to intellectual property or this Article that is not the subject of written notice provided to: Chief Intellectual Property Counsel, 3M Office of Intellectual Property Counsel, P.O. Box. 33427, St. Paul, Minnesota 55133-3427, before eighteen months after the Closing Date.

6.14. Sublicensed Intellectual Property. Effective on the Closing Date, 3M grants to Linvatec a non-exclusive, fully paid-up sublicense under the Sublicensed IP Agreement with respect to the 3M Product Line to the extent permitted in the provisions of such Sublicensed IP Agreement relating to 3M's sale of a product line to a third party. 3M will make the payment due under section 5.b. of the Sublicensed IP Agreement on or before January 15, 1999.

6.15 Other 3M Patent. Effective on the Closing Date, 3M agrees and covenants not to sue Linvatec with respect to Linvatec's use (if any) of the method claimed in US Patent No. 4,806,730 in Linvatec's conduct of the Business. This covenant will also cover suppliers of Linvatec to the extent they practice this method to supply Linvatec's needs with respect to the Business. This covenant will be transferable by Linvatec to any assignee or successor of the Business.

ARTICLE VII
Conditions to Closing

7.01 Conditions to Linvatec's Obligations. The obligations of Linvatec to be performed at the Closing shall be subject to the satisfaction or the waiver in writing by Linvatec at or prior to the Closing of the following conditions:

(a) Each of the representations and warranties of 3M contained in this Agreement shall be true in all material respects as of the Closing with the same effect as though such representations and warranties have been made as of the Closing, except for any variations therein resulting from actions contemplated or permitted by this Agreement, and each of the covenants to be performed by 3M at or before the Closing pursuant to the terms hereof shall have been duly performed in all material respects. Linvatec shall have been furnished with a certificate of 3M, executed on its behalf by an appropriate officer of 3M and dated the Closing Date, certifying to the foregoing effects.

(b) No action, suit or proceeding by any governmental authority shall be pending against Linvatec or 3M which seeks to prevent the consummation of the transactions contemplated by this Agreement, and no injunction or order for any court or administrative agency of competent jurisdiction shall be in effect which restricts or prohibits the consummation by Linvatec or 3M of the transactions contemplated by this Agreement.

(c) Any waiting period (and any extension thereof) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), applicable to the acquisition of the Purchased Assets contemplated hereby shall have expired or been terminated.

(d) 3M and Linvatec shall have executed a supply agreement in the form of Exhibit B ("Supply Agreement") to ensure a smooth transition during that period between the Closing and the commencement of manufacturing by Linvatec.

(e) Linvatec shall have received from 3M:

(i) A Bill of Sale in the form of Exhibit C.

(ii) Certificate of Good Standing.

(iii) Certified copies of 3M's corporate resolutions authorizing the transaction contemplated hereby and by the Supply Agreement.

(f) 3M shall have completed Schedule 2.02 (Excluded Assets). Any items added by 3M to Schedule 2.02 between the signing of this Agreement and the Closing must be approved by Linvatec, which will not withhold its approval unreasonably.

7.02 Conditions to Obligations of 3M. The obligations of 3M to be performed at the Closing shall be subject to the satisfaction or the waiver in writing by 3M at or prior to the Closing of the following conditions:

(a) Each of the representations and warranties of Linvatec contained in this Agreement shall be true in all material respects as of the Closing with the same effect as though such representations and warranties had been made as of the Closing, except for any variations therein resulting from actions contemplated or permitted by this Agreement, and each of the covenants to be performed by Linvatec at or before the Closing pursuant to the terms hereof shall have been duly performed in all material respects. 3M shall have been furnished with a certificate of Linvatec, executed on its behalf by an appropriate officer of Linvatec and dated the Closing Date, certifying to the foregoing effects.

(b) No action, suit or proceeding by any governmental authority shall be pending against Linvatec or 3M which seeks to prevent the consummation of the transactions contemplated by this Agreement, and no injunction or order of any court or administrative agency of competent jurisdiction shall be in effect which restricts or prohibits the consummation by Linvatec of 3M of the transactions contemplated by this Agreement.

(c) Any waiting period (and any extension thereof) under the HSR Act applicable to the acquisition of the Purchased Assets contemplated hereby shall have expired or been terminated.

ARTICLE VIII
Certain Agreements

8.01 Linvatec Investigation: No Representations or Warranties: Exclusivity of Remedies.

(a) LINVATEC HEREBY ACKNOWLEDGES THAT IT HAS EVALUATED AND CONDUCTED THOROUGH DUE DILIGENCE WITH RESPECT TO THE 3M PRODUCT LINE. THE PURCHASED ASSETS AND THE BUSINESS (INCLUDING THE OPERATIONS, CONTRACTS, CUSTOMER FILES, MANUFACTURING PROCESS, INTELLECTUAL PROPERTY, FINANCIAL INFORMATION AND PROSPECTS OF THE BUSINESS (INCLUDING BUT NOT LIMITED TO ANY DOCUMENTS PROVIDED TO LINVATEC BY 3M), AND HAS BEEN REPRESENTED BY, AND HAD THE ASSISTANCE OF, COUNSEL (INCLUDING BUT NOT LIMITED TO INTELLECTUAL PROPERTY COUNSEL) IN THE CONDUCT OF SUCH DUE DILIGENCE, THE PREPARATION AND NEGOTIATION OF THIS AGREEMENT AND THE TRANSACTION DOCUMENTS, AND THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED HEREBY.

(b) 3M HAS MADE AVAILABLE TO LINVATEC AND ITS REPRESENTATIVES CERTAIN INFORMATION AND RECORDS RELATING TO THE 3M PRODUCT LINE, THE PURCHASED ASSETS AND THE BUSINESS. IT IS UNDERSTOOD AND AGREED BY THE PARTIES THAT NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, HAS BEEN MADE BY 3M OR ITS AGENTS REGARDING THE ACCURACY OR COMPLETENESS OF ANY SUCH INFORMATION OR RECORDS, EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT OR ANY OF THE TRANSACTION DOCUMENTS, AND THAT 3M WILL NOT HAVE OR BE SUBJECT TO ANY LIABILITY TO LINVATEC OR ANY OTHER PERSON RESULTING FROM THE DISTRIBUTION TO LINVATEC, OR LINVATEC'S USE, OF ANY SUCH INFORMATION OR RECORDS, EXCEPT AS EXPRESSLY PROVIDED IN THIS AGREEMENT. FURTHERMORE, LINVATEC AGREES THAT IT IS ACCEPTING POSSESSION OF THE PURCHASED ASSETS AT THE CLOSING "AS IS, WHERE IS, WITH ALL FAULTS," WITH NO RESULTING RIGHT OF SET-OFF OR REDUCTION IN THE PURCHASE PRICE, AND THAT, EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT OR ANY OF THE TRANSACTION DOCUMENTS, THE SALE OF THE PURCHASED ASSETS IS BEING MADE WITHOUT REPRESENTATION OR WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, INCLUDING ANY WARRANTY OF INCOME POTENTIAL, OPERATION EXPENSE, USE, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, ALL OF WHICH REPRESENTATIONS AND WARRANTIES ARE HEREBY DISCLAIMED AND RENOUNCED BY 3M.

(c) LINVATEC ACKNOWLEDGES AND AGREES THAT, EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN SECTION 5, ITS SOLE AND EXCLUSIVE REMEDY WITH RESPECT TO ANY AND ALL CLAIMS RELATING TO THE SUBJECT MATTER OF THIS AGREEMENT (INCLUDING CLAIMS FOR BREACHES OF REPRESENTATIONS, WARRANTIES AND COVENANTS CONTAINED IN THIS AGREEMENT) SHALL BE PURSUANT TO THE INDEMNIFICATION PROVISIONS SET FORTH IN ARTICLE XI.

(d) WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, NO CLAIMS RELATING TO THE SUBJECT MATTER OF THIS AGREEMENT MAY BE BROUGHT BY LINVATEC AGAINST ANY DIRECTOR, OFFICER OR EMPLOYEE 3M IN HIS OR HER INDIVIDUAL CAPACITY.

8.02 Conduct of Business. Except as expressly contemplated by this Agreement, from the date hereof until the Closing, 3M will conduct the Business in the usual and ordinary course. 3M specifically agrees that it will not (i) enter into any agreements with respect to the Business that are less favorable than contracts currently in place, (ii) enter into new contracts without the prior written consent of Linvatec, (iii) give away any products or services associated with the Business without the prior written consent of Linvatec (iv) offer or provide its products to customers, distributors or others in any special incentive pricing packages, including any bundled sales of the Products with other medical or other products, except as may be necessary to meet competitive pricing in the markets for the Product being sold as part of the Business and only then after receiving proof of approval from Linvatec; and (v) offer discounted pricing or free products in connection with any effort to sell other 3M products.

8.03 Unassignable Contracts. Notwithstanding anything to the contrary stated in this Agreement, but subject to Article VI (Intellectual Property), if any Contract cannot be assigned to or assumed by Linvatec without the approval, consent or waiver of another party thereto, and such approval, consent or waiver has not been obtained at or prior to the Closing, then (i) such Contract shall not be assigned to or assumed by Linvatec at the Closing, (ii) 3M and Linvatec shall, if such approval, consent or waiver is obtained following the Closing, promptly thereafter execute all documents necessary to complete the assignment and assumption of such Contract (at Linvatec's expense), and (iii) unless and until such approval, consent or waiver is obtained and such assignment and assumption occurs, 3M shall hold the benefits and privileges of such Contract arising after the Closing Date in trust for Linvatec and Linvatec will indemnify and hold harmless 3M against and with respect to all obligations of 3M payable or performable after the Closing Date under such Contract. Each of 3M and Linvatec agrees to use reasonable efforts to promptly obtain all approvals, consents and waivers from third parties to the Contracts which are necessary to permit the Contracts to be assigned to and assumed by Linvatec, provided that neither 3M nor Linvatec shall be obligated to make any payment or offer or grant any accommodation (financial or otherwise) in exchange for any such approval, consent or waiver.

8.04 Bulk Transfer Laws. 3M and Linvatec mutually waive compliance with the provisions of any applicable state bulk transfer laws, including any state tax laws relating to the obligations of buyers of assets in bulk transfers.

8.05 Removal of Assets. Linvatec agrees to assume responsibility for, and pay all expenses in connection with transporting and relocating those Purchased Assets which at the Closing are located at any of 3M's facilities. Such removal shall be completed within thirty (30) days after the termination of the Supply Agreement. 3M agrees to give Linvatec, its agents and employees access to such facilities at reasonable times and upon reasonable notice, and reasonable assistance for purposes of removing such Purchased Assets. 3M shall have no liability to Linvatec in connection with the removal from, such facilities of the Purchased Assets after the Closing, and risk of loss with respect to such Purchased Assets shall pass to Linvatec on the Closing. Linvatec shall be responsible for the costs of repairing any damage to such facilities resulting from the removal of the Purchased Assets therefrom.

8.06 [Intentionally omitted]

8.07 Record Retention. Linvatec shall retain all business files and documents included in the Purchased Assets and so specified in Schedule 8.07 (Record Retention) for a period of ten years after the Closing Date, and Linvatec shall make available to 3M any such records for inspection and copying, upon reasonable notice from 3M.

8.08 Governmental Filings. Unless such Notification and Report Form has already been filed, Linvatec and 3M agree to make or cause their affiliates to make an appropriate filing of a Notification and Report Form pursuant to the HSR Act with respect to the transactions contemplated hereby within five business days of the date hereof, to supply promptly any additional information and documentary material that may be requested pursuant to the HSR Act, and to use all reasonable efforts to obtain an early termination of any applicable waiting period under the HSR Act.

8.09 Further Assurances. For a period of one (1) year following the Closing Date, 3M shall promptly execute, acknowledge and deliver any further assignments, conveyances and other instruments of transfer reasonably requested by Linvatec and necessary to effectuate the transfer of title to the Purchased Assets to Linvatec and, at Linvatec's expense, will take any other action consistent with the terms of this Agreement that may be reasonably be requested by Linvatec for the purpose of assigning, transferring, granting, and confirming ownership in or to Linvatec, or reducing to Linvatec's possession, any or all of the Purchased Assets.

8.10 Further Assistance. For a period of one (1) year, 3M agrees to complete any documents necessary to show that Linvatec did not assume assets with liens or outstanding tax obligations.

8.11 No Adverse Material Change. 3M agrees that it will make all commercially reasonable efforts to maintain the Business at its current levels up to and through Closing, and that there will be no Adverse Material Change in the Business prior to and up to the Closing.

8.12 Product Liability Assistance. 3M will assist Linvatec with the defense of any and all future product liability actions brought within one (1) year after Closing, and will make reasonably available any retained employees to assist in the defense of any such actions, with Linvatec being responsible only for out-of-pocket travel expenses, if any, incurred by such 3M employees therewith. Linvatec will similarly assist 3M with the defense of any and all product liability actions brought prior to Closing or against which 3M is obligated to defend according to Section 10.02(b).

8.13 Non-Competition Agreement. For a period of five (5) years following the Closing Date, neither 3M, nor any of the Affiliates of 3M shall sell directly or indirectly anywhere within the United States or U.S. territory and any foreign country any 3M Products being sold in this Agreement. If at the time of enforcement of this Section 8.13, the court shall hold that the duration, scope or area restrictions stated herein are unreasonable under circumstances then existing, the parties agree that the maximum duration, scope or area reasonable under such circumstances shall be substituted for the stated duration, scope or area, but in no event in excess of the stated duration, scope or area. In an action in law or in equity for breach or enforcement of this Section 8.13 brought in any court having competent jurisdiction over the parties to such an action, the prevailing party shall be entitled to recover from the other party or parties its reasonable attorneys fees, costs and expenses associated with prosecuting or defending such an action to its final disposition (including final dispositions by summary adjudication, judge or jury verdict or final appeal).

8.14 [Intentionally omitted]

8.15 Misdirected Payments. The parties anticipate that certain third parties, including customers and vendors, may misdirect payments or goods to 3M rather than to Linvatec, or to Linvatec rather than 3M. 3M and Linvatec agree to notify and to forward to the other promptly any such misdirected payments or goods.

8.16 Transition Agreement. 3M will assist Linvatec in the transition of the business. 3M and Linvatec will send a joint letter to customers of the Business informing them that Linvatec has purchased the Business. 3M will introduce the appropriate Linvatec represesentative to the customers. If, at any time within eighteen (18) months after Closing, customers contact 3M to purchase 3M Products sold through this Agreement, 3M will notify those customers that the 3M Products are available from Linvatec.

8.17 Vendor Assignments or Assistance. 3M shall assist Linvatec in transferring or assigning, or entering into supply agreements with vendors or with 3M or its affiliates, as Linvatec may require.

8.18 Independent Sales Representatives. Linvatec will pay 50% of all commissions and incentive payments that 3M is obligated to pay to independent sales representatives for sales of 3M Products occurring from Closing through December 31, 1998. 3M will pay the full amount of the commissions and incentive payments to the independent sales representatives and deduct the amount owed by Linvatec from the prepayment stated in the Supply Agreement.

8.19 3M Materials and Components. "3M Materials and Components" are materials and components that 3M uses in the 3M Products but are not included in the Purchased Assetsand for which there are no substitutes available from another supplier. 3M will supply 3M Materials and Components to Linvatec for the manufacture of 3M Products by Linvatec for one year from the end of the Supply Agreement at prices it charges to similar customers who purchase like quantities of the 3M Materials and Components.

ARTICLE VIIIA
Employees

8A.1 In the event Buyer offers employment to 3M employees and 3M employees accept this offer of employment at the time of closing, they shall be referred to as "Transferred Employees".

8A.2 Benefits. Buyer will provide coverage and benefits to the Transferred Employees under same pension and welfare benefit plans covering its salaried employees, and 3M will have no responsibility therefor on and after such date. 3M shall remain responsible to the Transferred Employees for all benefits accrued pursuant to 3M benefit plans prior to the closing date and payable under the provisions of such plans. Buyer assumes no liability or obligation therefor.

8A.3 Service Credit. Buyer shall cause each of its pension and welfare benefit plans to recognize all of the service that the Transferred Employees completed with 3M for purposes of determining their eligibility to participate in, eligibility for benefits under, vesting in accrued benefits, and accrual of benefits under such plans (except for Buyer's Defined Benefit Pension Plan.)

8A.4 Group Health Plans. Buyer will cause its group health benefit plans to (i) waive any exclusions for pre-existing conditions affecting Transferred Employees and their eligible family members, and (ii) recognize any out of pocket medical and dental expenses incurred by Transferred Employees and their eligible family members during 1998, but prior to the Closing Date, for purposes of determining their deductibles and out of pocket maximums under Buyer's plans.

8A.5 Vacation Benefits. Transferred Employees will be covered by and begin accruing benefits under Buyer's vacation plan covering its salaried employees. Buyer's vacation plan shall recognize all of the Transferred Employees' years of service with 3M for the purpose of determining their future vacation benefits.

ARTICLE IX
Closing

9.01 Closing Date. The closing of the purchase and sale of the

Purchased Assets and the assumption of the Assumed Liabilities pursuant to this Agreement (the "Closing") shall take place on November 5, 1998, at the offices of 3M, at 10:00 a.m., or, if the conditions to Closing set forth in Article V shall not have been satisfied or waived by the appropriate party by such time of day on such date, at the same time of day on the first business day to occur following the date on which all of the conditions to Closing set forth in Article VII shall have been satisfied or waived as provided therein (subject to the provisions of Section 11.01), or at such other date, place or time as Linvatec and 3M may agree upon in writing. The date on which the Closing shall be required to occur, as determined in accordance with this Section 9.01, is herein referred to as the "Closing Date". The Closing shall be deemed to have become effective as of the start of business on the Closing Date.

9.02 Closing Deliveries.

(a) 3M agrees to deliver to Linvatec at the Closing such bills of sale, assignments and other instruments of transfer (excluding transfer of Intellectual Property or IP Agreements), in form and substance reasonably satisfactory to Linvatec, as shall be necessary or appropriate to effect the conveyance to Linvatec of the Purchased Assets (without representation or warranty except as expressly provided in this Agreement), duly executed by 3M.

(b) Linvatec agrees to pay or deliver, as the case may be, to 3M at the Closing the following:

(i) An assumption agreement, in form of Exhibit D, effecting the assumption by Linvatec of the Assumed Liabilities, duly executed by Linvatec;

(ii) The Purchase Price paid in the manner provided in Section 3.01; and

(iii) Intellectual property assignment or transfer documents as provided in Article VI.

(c) The certificates, instruments and documents executed and delivered by the parties at the Closing pursuant to this Agreement are herein collectively referred to as the "Transaction Documents".

9.03 Post-Closing Deliveries. Each of Linvatec and 3M will, at the request and sole cost and expense of the other such party, do, make, execute, acknowledge and deliver after the Closing all such other and further acts and instruments of conveyance, assignment, transfer, consent and assumption as Linvatec may reasonably require to confirm conveyance and transfer to Linvatec of any of the Purchased Assets or as 3M may reasonably required to confirm assumption by Linvatec of any of the Assumed Liabilities. Nothing contained herein shall be construed to require 3M to acquire any intellectual property license from any third party.

ARTICLE X
Indemnity

10.01 Survival. The representations and warranties of Linvatec and 3M herein or in any of the Transaction Documents shall survive the Closing, but, as to any claim, only for so long as the indemnification obligations under this Agreement with respect to such claim remain in force as provided in Sections 8.09, 8.10, 8.12, 8.13, 8.16, , 10.02(d) or 10.03(b), as the case may be.

10.02 Indemnity by 3M.

(a) 3M hereby agrees to indemnify and hold harmless Linvatec against and with respect to any and all claims, losses, injuries, damages, deficiencies, liabilities, obligations, assessments, judgments, costs and expenses, including (except as otherwise

expressly provided in this Agreement) costs and expenses of litigation and reasonable attorneys' fees ("Losses"), suffered or incurred by Linvatec to the extent caused proximately by:

(i) any material breach of any representation or warranty of 3M contained in this Agreement;

(ii) any material non-fulfillment of any covenant or agreement of 3M contained in this Agreement;

(iii) any failure of the parties, in connection with the transactions contemplated hereby, to comply fully with the provisions of any applicable state bulk transfer laws, including any state tax laws relating to the obligations of Linvatecs of assets in bulk transfers (provided that in no event shall 3M be required to indemnify Linvatec hereunder with respect to any liability for which Linvatec would have been obligated even had such laws been fully complied with, including any Assumed Liabilities or any other liabilities or obligations that Linvatec has expressly agreed to pay or be responsible for pursuant to this Agreement);

(iv) with respect to any claim of infringement of third party intellectual property rights, any sales of 3M Products by 3M before the Closing Date.

(b) 3M hereby agrees to indemnify and defend Linvatec against any and all claims, suits, actions or proceedings for personal injuries alleged to have been caused by 3M Products prior to Closing.

(c) 3M hereby agrees to pay Linvatec's actual expenses incurred in recalling 3M Products sold prior to Closing if a recall is required within six months after Closing. `Actual expenses' include Linvatec's actual costs of collecting the recalled product (if required), repairing or replacing the recalled product, or refunding the appropriate proportional amount of the purchase price. Linvatec will give 3M prompt notice of any recall for which 3M is obligated to pay the actual expenses. Linvatec will choose the least costly among repairing, replacing or refunding the appropriate proportional amount of the purchase price of the recalled products. 3M is not obligated to pay for expenses associated with identifying the cause of the problem creating the need to recall or with developing the appropriate correction.

(d) Notwithstanding anything to the contrary provided elsewhere in this Agreement, the obligations of 3M under this Agreement to indemnify Linvatec with respect to any claim pursuant to clause (i) of Section 10.02(a) shall be of no force unless Linvatec has given 3M written notice of such claim prior to the eighteen (18) months after the Closing Date.

(e) Notwithstanding anything to the contrary provided elsewhere in this Agreement, in no event shall 3M be liable to Linvatec for amounts payable under clause (i) of Section 10.02(a) until such amounts exceed in the aggregate $50,000.

(f) Notwithstanding anything to the contrary provided in this Agreement, in no event shall 3M be liable to Linvatec for amounts payable under clauses (i) and (ii) of Section 10.02(a) and Section 10.02(c) to the extent such amounts exceed in the aggregate fifty percent (50%) of the Purchase Price.

10.03 Indemnity by Linvatec.

(a) Linvatec hereby agrees to indemnify and hold harmless 3M against and

with respect to any and all Losses suffered or incurred by 3M to the extent caused proximately by:

(i) Any material breach of any representation or warranty of Linvatec contained in this Agreement or in any of the Transaction Documents; or

(ii) Any material non-fulfillment of any covenant or agreement of Linvatec contained in this Agreement or in any of the Transaction Documents; or

(iii) Any claims which are brought against 3M as a result of the retention by Linvatec after the Closing on any assets transferred to Linvatec hereunder of any trade names or trademarks of 3M not included in the Purchased Assets, as permitted by Article VI (Intellectual Property); or

(iv) The Assumed Liabilities; or

(v) With respect to any claim of infringement of third party intellectual property rights, any sales of products by Linvatec after the Closing Date.

(b) Notwithstanding anything to the contrary provided elsewhere in this Agreement the obligation of Linvatec under this Agreement to indemnify 3M with respect to any claim pursuant to Section 10.03(a) shall be of no force unless 3M has given Linvatec written notice of such claim within eighteen (18) months after the Closing Date.

(c) Notwithstanding anything to the contrary provided elsewhere in this Agreement, in no event shall Linvatec be liable for amounts payable under Section 10.03(a) until such amounts exceed $50,000.

10.04 Third Party Claims. In order for a party (the "indemnified party") to be entitled to any indemnification provided for under this Agreement in respect of, arising out of or involving a claim or demand made by any third party against the indemnified party (a "Third Party Claim"), such indemnified party shall notify the other party (the "indemnifying party") in writing of the Third Party Claim, and deliver to the indemnifying party copies of all notices and documents accompanying or constituting the Third Party Claim, within ten business days after obtaining notice thereof; provided, however, that failure to give such notification shall not affect the indemnification provided hereunder, except to the extent the indemnifying party shall have been actually prejudiced as a result of such failure and except that the indemnifying party shall have been actually prejudiced as a result of such failure and except that the indemnifying party shall not be liable for any expenses incurred during the period in which the indemnified party failed to give such notice. Thereafter, the indemnified party shall deliver to the indemnifying party, within five business days after the indemnified party's receipt thereof, copies of all notices and documents (including court papers) received by the indemnified party relating to the Third Party Claim; provided, however that failure to deliver such copies shall not affect the indemnification provided hereunder except to the extent the indemnifying party shall have been actually prejudiced as a result of such failure. If a Third Party Claim is made against an indemnified party, the indemnifying party will be entitled to participate in the defense thereof and, if it so chooses, to assume the defense thereof with counsel selected by the indemnifying party and reasonably satisfactory to the indemnified party. Should the indemnifying party so elect to assume the defense of a Third Party Claim, which election must be made within 30 days after the indemnifying party receives notice of the Third Party Claim from the indemnified party, the indemnifying party will not be liable to the indemnified party for legal expenses incurred by the indemnified party in connection with the defense thereof. If the indemnifying party assumes such defense, the indemnified party shall have the right, but not the obligation, to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel

employed by the indemnifying party, it being understood that the indemnifying party shall control such defense. If the indemnifying party has not assumed the defense of a Third Party Claim, the indemnifying party shall be liable for the fees and expenses of counsel employed by the indemnified party. If the indemnifying party chooses to defend or prosecute any Third Party Claim, the indemnified party shall cooperate in the defense or prosecution thereof with reimbursement by the indemnifying party only of reasonable out-of-pocket expenses of the indemnified party incurred in connection therewith. Such cooperation shall include the retention and (upon the indemnifying party's request) the provision to the indemnifying party of records and information which are reasonably relevant to such Third Party Claim, and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Whether or not the indemnifying party shall have assumed the defense of a Third Party Claim, the indemnified party shall not admit any liability with respect to, or settle, compromise or discharge, such Third Party Claim without the indemnifying party's prior written consent, which consent shall not be unreasonably withheld.

ARTICLE XI

Miscellaneous

11.01 Termination. This Agreement may be terminated and the transactions contemplated hereby abandoned prior to the Closing:

(a) By Linvatec giving written notice to 3M, if 3M shall be in breach in any material respect of any representation, warranty or covenant contained in this Agreement (provided that no such termination shall occur unless Linvatec shall have given notice to 3M of such breach, specifying in reasonable detail the nature of such breach, and such breach shall not have been cured in all material respects within 30 days after such notice is given), or if the conditions set forth in Section 7.01 shall become impossible to fulfill other than for reasons totally within the control Linvatec and shall not have been waived in writing by Linvatec;

(b) By 3M giving written notice to Linvatec, if Linvatec shall be in breach in any material respect of any representation, warranty or covenant contained in this Agreement (provided that no such termination shall occur unless 3M shall have given notice to Linvatec of such breach, specifying in reasonable detail the nature of such breach, and such breach shall not have been cured in all material respects within 30 days after such notice is given), or in the conditions set forth in Section 7.02 shall have become impossible to fulfill other than for reasons totally within the control of 3M and shall not have been waived in writing by 3M;

(c) By mutual agreement of 3M and Linvatec; and

(d) By Linvatec or 3M giving written notice to the other such party, if the purchase and sale of the Purchased Assets and the assumption of the Assumed Liabilities contemplated hereby shall not have been consummated by December 15, 1998, unless such failure shall be due to the failure of the party seeking to terminate this Agreement to perform or observe any covenants contained in this Agreement required to be performed or observed by such party at or before the Closing.

(e) By Linvatec, if there is any Adverse Material Change in the Business.

(f) If this Agreement is terminated pursuant to any of the provisions hereof, each of the parties hereto shall thereupon be released from all liabilities hereunder, except:

(i) Liabilities for any default under this Agreement which shall have occurred prior to the effective date of such termination,

(ii) All confidentiality obligations pursuant to the Agreement dated July 27, 1998, and

(iii) Obligations set forth in Sections 11.03 and 11.13.

11.02 Dispute Resolution

(a) Any disagreement or dispute between the parties arising out of or related to this Agreement or the breach or making hereof (a "Dispute") shall be resolved in the manner provided in this Section 11.02. Should there develop any Dispute, either party may, by written notice to the other party, request that such Dispute be referred to the Medical Markets Group Counsel of 3M or Medical Markets Intellectual Property Counsel (for intellectual property issues) and the General Counsel of Linvatec (the "Principals"), who shall negotiate in good faith to attempt to resolve the Dispute. No settlement reached under this Section 11.02(a) shall be binding on the parties until reduced to a writing signed on behalf of the parties by the Principals.

(b) Should the procedure outlined in Section 11.02(a) fail to bring about a resolution of each outstanding Dispute within 30 days following the giving of the notice referred to therein, then the parties shall promptly initiate a voluntary, non-binding mediation conducted by a mutually-agreed mediator. Should the parties for any reason be unable to agree upon a mediator, they shall request the clerk of court of the Hennepin County District Court in the State of Minnesota to appoint a capable mediator for them. Linvatec and 3M shall each bear one-half of the costs and expenses of the mediation and shall endeavor in good faith to resolve therein each outstanding Dispute. No settlement reached under this Section 11.02(b) shall be binding on the parties until reduced to a writing signed on behalf of the parties by the Principals.

(c) In the event the parties are unable to resolve any outstanding Dispute as provided above within 60 days following commencement of mediation, then either party may initiate legal action as provided in Section 11.09.

(d) Notwithstanding anything to the contrary provided in this Section 11.02, and without prejudice to the above procedures, either party may at any time, in connection with any Dispute, apply to a court of competent jurisdiction for temporary injunctive or other provisional judicial relief if in such party's sole judgment such action is necessary to avoid irreparable damage or to preserve the status quo until such time as the arbitration award is rendered or the Dispute is otherwise resolved in accordance with this Section 11.02.

11.03 Expenses. Except as otherwise expressly provided herein, each party hereto shall pay its own legal, accounting and other expenses incident to the preparation of, and consummation of the transactions contemplated by, this Agreement. Each party shall pay its own filing fees under the HSR Act.

11.04 Titles. The titles of the Articles and Sections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

11.05 Entire Agreement. This Agreement constitutes the entire understanding between the parties with respect to the subject matter hereof, superseding all negotiations, prior discussions and preliminary agreements.

11.06 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be considered an original and all of

which shall constitute one and the same instrument.

11.07 Waivers, Consents and Amendments. Any failure of either of the parties to comply with any obligation, covenant, agreement or condition herein may be waived by the other party only by a written instrument signed by such other party, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. Whenever this Agreement requires or permits consent by or on behalf of either party hereto, such consent shall be given in writing in a manner consistent with the requirements for a waiver of compliance as set forth herein. This Agreement may be amended only by an agreement, in writing, signed by the parties hereto.

11.08 Governing Law. This Agreement shall be governed in all respects by, and construed under, the laws of the State of Minnesota.

11.09 Jurisdiction. Subject to the provisions of Section 11.02, each of 3M and Linvatec (i) irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in Minnesota for the purposes of any suit, action or other proceeding arising out of this Agreement or the transactions contemplated hereby (and agrees not to commence any action, suit or proceeding relating hereto except in any such court), (ii) agrees that service of any process, summons, notice or document by United States registered mail to such party's respective address set forth in Section 11.12 shall be effective service of process for any action, suit or proceeding in Minnesota with respect to which it has submitted to jurisdiction as set forth above, and (iii) irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in any state or federal courts sitting in Minnesota and agrees not to plead or claim in any such court that any such action, suit or proceeding brought therein has been brought in an inconvenient forum. Each of 3M and Linvatec acknowledges that the time and expense required for trial by jury exceed the time and expense required for a bench trial and hereby waive, to the extent permitted by law, trial by jury.

11.10 SPECIAL DAMAGES. LINVATEC AND 3M HAVE EACH AGREED TO WAIVE ANY RIGHT TO RECEIVE PUNITIVE, CONSEQUENTIAL, SPECIAL OR INDIRECT DAMAGES RELATING IN ANY WAY TO THIS AGREEMENT OR THE PURCHASE/SALE OF THE BUSINESS AND/OR THE PURCHASED ASSETS, IRRESPECTIVE OF THE LEGAL THEORY ASSERTED.

11.11 Severability of this Agreement. In case any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

11.12 Assignment. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the parties hereto, provided that this Agreement may not be assigned by either party without the prior written consent of the other party. Except as expressly provided herein, this Agreement is for the sole benefit of the parties hereto and nothing herein shall give or be construed to give to any person other than the parties any legal or equitable rights under this Agreement.

11.13 Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given upon delivery in person, or one day after the same shall have been sent by overnight messenger service, or three days after the same shall have been mailed by registered or certified mail, postage prepaid, return receipt requested, to the respective parties at the following addresses:

If to Linvatec: Linvatec Corporation
11311 Concept Boulevard
Largo, Florida 33773
Attention: President

with a copy: CONMED Corporation
310 Broad St.
Utica, New York 13501

Attention: President

If to 3M: Minnesota Mining and Manufacturing Company
Post Office Box 33428
Saint Paul, Minnesota 55133
Attention: John Ursu

11.14 Public Announcements. No press releases or public announcements regarding the terms of this Agreement shall be made by either party without the prior written approval of the other party (which approval shall not be unreasonably withheld), except as may be necessary, in the opinion of counsel for such party, to meet the requirements of any law or governmental regulation or any applicable exchange regulation (in which event the other party will be notified before, if practical under the circumstances, and after any action is taken thereon).

11.15 Tax Treatment. It is expressly understood and agreed that none of 3M, Linvatec or any of their respective officers or agents have made any warranty or agreement, express or implied, as to the tax consequences of the transactions contemplated hereby.

11.16 Specific Performance. Each of the parties hereto acknowledges and agrees that the other party would be damaged irreparably in the event any of the covenants contained in this Agreement are not performed in accordance with their specific terms or otherwise are breached. Accordingly, each of the parties hereto agrees that the other party shall be entitled to an injunction or injunctions to prevent breaches of the covenants contained in this Agreement and to enforce specifically this Agreement and the covenants contained herein in any action properly instituted, in addition to any other remedy to which such other party may be entitled under this Agreement or at law or in equity.

11.17 Disclosures.

(a) Matters disclosed by 3M to Linvatec in this Agreement or the Schedules hereto are not necessarily limited to matters required to be disclosed by this Agreement. Any such additional matters are set forth for informational purposes and do not necessarily include other matters of a similar nature. Matters disclosed by 3M to Linvatec in any provision of this Agreement or any Schedule hereto shall be deemed to be disclosed with respect to each provision of this Agreement to the extent such provision requires such disclosure.

(b) From time to time prior to the Closing, 3M will promptly supplement or amend the Schedules hereto with respect to any matter hereafter arising which would make any representation or warranty set forth in Sections 5.01 or 6.07 inaccurate if not updated as of the Closing, or as is otherwise necessary to correct any information in such Schedules or in any representation or warranty of 3M made in Sections 5.01 or 6.07 (subject to Section 6.08). For purposes of determining the satisfaction of the condition set forth in Section 7.01(a) at or prior to the Closing and the accuracy of the representations and warranties contained in Sections 5.01 or 6.07 if the Closing does not occur, the Schedules hereto shall be deemed to include boththat information contained therein on the date of this Agreement and any information contained in any subsequent supplement or amendment thereto. Moreover, for purposes of determining the accuracy of the representations or warranties of 3M contained in Sections 5.01 or 6.07 or the liability of 3M with respect thereto under Section 11.02(a) should the Closing occur, the Schedules hereto shall be deemed to include all information contained in any subsequent supplement or amendment thereto.

11.18 Interpretation. In this Agreement:

(a) words denoting the singular include the plural and vice versa and words denoting any gender include all genders;

(b) the word "including" shall mean "including without limitation";

(c) the word "affiliate" shall have the meaning set forth in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended;

(d) the word "person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof;

(e) the word "business day" shall mean any day other than a Saturday, Sunday or a day which is a statutory holiday under the laws of the United States or the State of Minnesota;

(f) when calculating the period of time within which or following which any act is to be done or step taken, the date which is the reference day in calculating such period shall be excluded and, if the last day of such period is not a business day, the period shall end on the next day which is a business day; and

(g) all dollar amounts are expressed in United States funds.

[Remainder of page intentionally left blank].

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

ATTEST: MINNESOTA MINING AND MANUFACTURING COMPANY

_____ By:

Its

ATTEST: LINVATEC CORPORATION

_____ By:

Its

EXHIBIT 11

CONMED Corporation
Computation of Weighted Average Number of Shares of Common Stock

	Year Ended December, (in thousands)		
	1996	1997	1998
Shares outstanding at beginning of period	11,000	14,989	15,062
Weighted average shares issued	3,045	8	23
Shares used in the calculation of basic EPS (weighted average shares outstanding)	14,045	14,997	15,085
Effect of dilutive potential securities	451	-	236
Shares used in the calculation of diluted EPS	14,496	14,997	15,321

EXHIBIT 12

CONMED Corporation
Statement Showing Computations of Ratio of Earnings to Fixed Charges

	1994	1995	1996	1997	1998
Income (loss) before income taxes and extraordinary item	$ 8,306	$ 16,763	$ 25,447	$ (10,705)	$ 30,276
Interest expense	628	1,991	217	-	30,891
Portion of rentals representative of interest factor	146	146	108	147	875
Total earnings available for fixed charges	$ 9,080	$18,900	$25,772	$(10,558)	$ 62,042
Interest expense	$ 628	$ 1,991	$ 217	$ -	$ 30,891
Portion of rentals representative of interest factor	146	146	108	147	875
Total fixed charges	$ 774	$ 2,137	$ 325	$ 147	$ 31,766
Ratio of earnings to fixed charges	11.73	8.84	79.30	(A)	1.95

(A) As a result of the loss incurred in 1998, the Company was unable to fully cover the indicated fixed charges.

EXHIBIT 21

CONMED Corporation
Subsidiaries of the Registrant

Name	State of Incorporation
Aspen Laboratories, Inc.	Colorado
Consolidated Medical Equipment International, Inc.	New York
CONMED Andover Medical, Inc.	New York
Birtcher Medical Systems, Inc.	California
Envision Medical Corporation	California
Linvatec Corporation	Florida
NDM, Inc.	New York

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-23514, 33-48693, 33-49422, 33-49526, and 33-74497) of CONMED Corporation of our report dated February 9, 1999 appearing on page F-1 of the 1998 Annual Report on Form 10-K.

Pricewaterhouse Coopers LLP

Syracuse, New York
March 30, 1999

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