SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-Q

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

For the Quarter Ended June 30, 2002 Commission File Number 0-16093

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

| | |
|---|---|
| New York<br>(State or other jurisdiction of incorporation or organization) | 16-0977505<br>(I.R.S. Employer Identification No.) |
| 525 French Road, Utica, New York<br>(Address of principal executive offices) | 13502<br>(Zip Code) |

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [_]

The number of shares outstanding of registrant's common stock, as of August 1, 2002 is 28,646,027 shares.

CONMED CORPORATION

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PART I FINANCIAL INFORMATION

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Item 1.

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

| | Three Months Ended June 30, 2001 | Three Months Ended June 30, 2002 | Six Months Ended June 30, 2001 | Six Months Ended June 30, 2002 |
|---|---|---|---|---|
| Net sales .................. | $104,171 | $111,269 | $210,080 | $224,474 |
| Cost of sales ............... | 49,965 | 51,711 | 99,639 | 105,815 |
| Selling and administrative ... | 33,922 | 35,141 | 68,751 | 69,609 |
| Research and development ..... | 3,476 | 4,078 | 7,172 | 7,902 |
| | 87,363 | 90,930 | 175,562 | 183,326 |
| Income from operations ....... | 16,808 | 20,339 | 34,518 | 41,148 |
| Interest expense, net ........ | 7,848 | 6,355 | 16,179 | 12,983 |
| Income before income taxes ... | 8,960 | 13,984 | 18,339 | 28,165 |
| Provision for income taxes ... | 3,226 | 5,034 | 6,602 | 10,139 |
| Net income .................. | $ 5,734 | $ 8,950 | $ 11,737 | $ 18,026 |
| Per share data: | | | | |
| Net Income | | | | |
| Basic ............... | $ .25 | $ .34 | $ .51 | $ .70 |

| | | | | |
|---|---|---|---|---|
| Diluted ............. | 25 | .33 | .50 | .68 |
| Weighted average common shares | | | | |
| Basic ................ | 23,111 | 26,584 | 23,084 | 25,735 |
| Diluted ............. | 23,399 | 27,359 | 23,352 | 26,422 |

See notes to consolidated condensed financial statements.



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

| | December 31, 2001 | (unaudited) June 30, 2002 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents ............................. | $ 1,402 | $ 877 |
| Accounts receivable, net .............................. | 51,188 | 57,039 |
| Inventories ........................................... | 107,390 | 114,869 |
| Deferred income taxes ................................. | 1,105 | 1,105 |
| Prepaid expenses and other current assets ............. | 3,464 | 3,660 |
| Total current assets ................................ | 164,549 | 177,550 |
| Property, plant and equipment, net ...................... | 91,026 | 95,050 |
| Goodwill, net ........................................... | 251,140 | 252,499 |
| Other intangible assets, net ............................ | 189,752 | 187,073 |
| Other assets ............................................ | 5,141 | 5,741 |
| Total assets ........................................ | $ 701,608 | $ 717,913 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt ..................... | $ 73,429 | $ 78,727 |
| Accounts payable ...................................... | 19,877 | 25,953 |
| Accrued compensation .................................. | 11,863 | 10,169 |
| Income taxes payable .................................. | 2,507 | 2,015 |
| Accrued interest ...................................... | 4,954 | 3,607 |
| Other current liabilities ............................. | 7,207 | 7,914 |
| Total current liabilities ........................... | 119,837 | 128,385 |
| Long-term debt .......................................... | 262,500 | 179,006 |
| Deferred income taxes ................................... | 18,655 | 25,874 |
| Other long-term liabilities ............................. | 16,982 | 12,946 |
| Total liabilities ................................... | 417,974 | 346,211 |
| Shareholders' equity: | | |
| Preferred stock, par value $.01 per share; authorized 500,000 shares; none outstanding ...... | -- | -- |
| Common stock, par value $.01 per share; 100,000,000 shares authorized; 25,261,590 and 28,646,027 shares issued and outstanding in 2001 and 2002, respectively ....................... | 253 | 287 |
| Paid-in capital ....................................... | 160,757 | 228,850 |
| Retained earnings ..................................... | 128,240 | 146,266 |
| Accumulated other comprehensive loss .................. | (5,197) | (3,282) |
| Less 37,500 shares of common stock in treasury, at cost ............................................ | (419) | (419) |

| | | |
|---|---|---|
| Total shareholders' equity | 283,634 | 371,702 |
| Total liabilities and shareholders equity | $ 701,608 | $ 717,913 |

See notes to consolidated condensed financial statements.



CONMED CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2001 and 2002
(in thousands)
(unaudited)

| | 2001 | 2002 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 11,737 | $ 18,026 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation | 4,345 | 4,404 |
| Amortization | 10,740 | 6,645 |
| Increase (decrease) in cash flows from changes in assets and liabilities: | | |
| Accounts receivable | (5,992) | (1,856) |
| Decrease in sale of accounts receivable | -- | (4,000) |
| Inventories | (991) | (9,756) |
| Prepaid expenses and other current assets | (311) | (224) |
| Accounts payable | (1,344) | 6,067 |
| Income taxes payable | 844 | (492) |
| Accrued compensation | (736) | (1,694) |
| Accrued interest | 62 | (1,347) |
| Other assets/liabilities, net | (785) | 2,108 |
| | 5,832 | (145) |
| Net cash provided by operating activities | 17,569 | 17,881 |
| Cash flows from investing activities: | | |
| Payments related to business acquisitions | -- | (1,359) |
| Purchases of property, plant, and equipment | (8,655) | (8,428) |
| Net cash used by investing activities | (8,655) | (9,787) |
| Cash flows from financing activities: | | |
| Borrowings (repayments)under revolving credit facility | 7,000 | (2,000) |
| Net proceeds from issuance of common stock | -- | 66,594 |
| Net proceeds from exercise of stock options | 507 | 3,533 |
| Repurchase of warrant on common stock | -- | (2,000) |
| Payments on long-term debt | (18,050) | (76,196) |
| Net cash used by financing activities | (10,543) | (10,069) |
| Effect of exchange rate changes on cash and cash equivalents | (917) | 1,450 |
| Net increase (decrease) in cash and cash equivalents | (2,546) | (525) |
| Cash and cash equivalents at beginning of period | 3,470 | 1,402 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of period ............................... | $ 924 | $ 877 |

See notes to consolidated condensed financial statements.



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

## Note 1 - Organization and operations

The consolidated condensed financial statements include the accounts of CONMED Corporation and its subsidiaries ("CONMED", the "Company", "we" or "us"). All intercompany accounts and transactions have been eliminated. CONMED Corporation is a medical technology company specializing in instruments, implants and video equipment for arthroscopic sports medicine, and powered surgical instruments, such as drills and saws, for orthopedic, ENT, neuro-surgery and other surgical specialties. We are also a leading developer, manufacturer and supplier of advanced medical devices, including radio frequency, or RF, electrosurgery systems used routinely to cut and cauterize tissue in nearly all types of surgical procedures worldwide and endoscopy products such as trocars, clip appliers, scissors and surgical staplers. We also manufacture and sell a full line of ECG electrodes for heart monitoring and other patient care products. Our products are used in a variety of clinical settings, such as operating rooms, surgery centers, physicians' offices and critical care areas of hospitals. Our business is organized, managed and internally reported as a single segment, since our product offerings have similar economic, operating and other related characteristics.

## Note 2 - Interim financial information

The statements for the three and six months ended June 30, 2001 and 2002 are unaudited; in our opinion such unaudited statements include all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation of the results for such periods. The consolidated condensed financial statements for the year ending December 31, 2002 are subject to adjustment at the end of the year when they will be audited by independent accountants. The results of operations for the three and six months ended June 30, 2002 are not necessarily indicative of the results of operations to be expected for any other quarter nor for the year ending December 31, 2002. The consolidated condensed financial statements and notes thereto should be read in conjunction with the financial statements and notes for the year ended December 31, 2001 included in our Annual Report to the Securities and Exchange Commission on Form 10-K.

## Note 3 - Other comprehensive income (loss)

Comprehensive income (loss) consists of the following:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2001 | 2002 | 2001 | 2002 |
| Net income .................... | $ 5,734 | $ 8,950 | $ 11,737 | $ 18,026 |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustment ..... | 171 | 1,441 | (892) | 1,477 |

| | | | | |
|---|---|---|---|---|
| Cash flow hedging (net of income taxes) ...... | 114 | (42) | (1,436) | 438 |
| Comprehensive income ......... | $ 6,019 | $ 10,349 | $ 9,409 | $ 19,941 |

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



| | Minimum Pension Liability | Cumulative Translation Adjustments | Cash Flow Hedges | Accumulated Other Comprehensive Income (loss) |
|---|---|---|---|---|
| Balance, December 31, 2001 ......... | $(1,062) | $(2,169) | $(1,966) | $(5,197) |
| Foreign currency translation adjustments ............. | -- | 1,477 | -- | 1,477 |
| Cash flow hedging (net of income taxes) ........... | -- | -- | 438 | 438 |
| Balance, June 30, 2002 ............ | $(1,062) | $ (692) | $(1,528) | $(3,282) |

Note 4 - Inventories
--------------------

The components of inventory are as follows:

| | December 31, 2001 | June 30, 2002 |
|---|---|---|
| Raw materials ............. | $ 38,101 | $ 37,474 |
| Work-in-process ........... | 11,921 | 14,211 |
| Finished goods ............ | 57,368 | 63,184 |
| Total | $107,390 | $114,869 |

Note 5 - Earnings per share
---------------------------

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2001 | 2002 | 2001 | 2002 |
| Shares used in the calculation of Basic EPS(weighted average shares outstanding) ......... | 23,111 | 26,584 | 23,084 | 25,735 |
| Effect of dilutive potential securities .................. | 288 | 775 | 268 | 687 |

| | | | | |
|---|---|---|---|---|
| Shares used in the calculation of Diluted EPS ............. | 23,399 | 27,359 | 23,352 | 26,422 |

The shares used in the calculation of diluted EPS exclude warrants and options to purchase shares where the exercise price was greater than the average market price of common shares for the period. Such shares aggregated 3,194,000 for the three months ended June 30, 2001, and 3,446,000 for the six months ended June 30, 2001. There were no options or warrants whose exercise price exceeded the average market price of common shares for the three and six months ended June 30, 2002.



## Note 6 - Shareholders' equity

In 1997, in connection with the acquisition of Linvatec Corporation, we issued to Bristol-Myers Squibb Company a warrant exercisable in whole or in part for up to 1.5 million shares of our common stock at a price of $22.82 per share. On May 6, 2002, we purchased the warrant for $2.0 million in cash and subsequently cancelled it. The purchase resulted in a $2.0 million reduction to paid-in capital.

On May 29, 2002, we completed a public offering of 3.0 million shares of our common stock. Net proceeds to the Company related to the sale of the shares approximated $66.6 million and was used to reduce indebtedness under our credit facility.

## Note 7 - New accounting pronouncements

In June 2001, the Financial Accounting Standards Board approved Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets", ("SFAS 142"). We adopted SFAS 142 effective January 1, 2002. Under this standard, amortization of goodwill and certain intangible assets, including certain intangibles recorded as a result of past business combinations, is to be discontinued upon adoption of SFAS 142.

During 2002, we performed tests of goodwill and indefinite-lived intangible assets as of January 1, 2002. We tested for impairment using the two-step process prescribed in SFAS 142. The first step is a screen for potential impairment. The second step, which has been determined not to be necessary, measures the amount of any impairment. No impairment losses have been recognized as a result of these tests. The following is a reconciliation assuming goodwill and other intangible assets had been accounted for in accordance with SFAS 142 in the three and six months ended June 30, 2002 and 2001:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2001 | 2002 | 2001 | 2002 |
| Reported net income | $ 5,734 | $ 8,950 | $11,737 | $18,026 |
| Adjustments (net of income taxes) | | | | |
| Add back: Goodwill amortization | 1,030 | -- | 2,060 | -- |
| Add back: Trademarks and trade names amortization | 383 | -- | 766 | -- |
| Adjusted net income | $ 7,147 | $ 8,950 | $14,563 | $18,026 |

| | Three Months Ended June 30, 2001 | Three Months Ended June 30, 2002 | Six Months Ended June 30, 2001 | Six Months Ended June 30, 2002 |
|---|---|---|---|---|
| Basic earnings per share | | | | |
| Reported net income | $ .25 | $ .34 | $ .51 | $ .70 |
| Adjustments (net of income taxes) | | | | |
| Add back: Goodwill amortization | .04 | -- | .09 | -- |
| Add back: Trademarks and trade names amortization | .02 | -- | .03 | -- |
| Adjusted net income | $ .31 | $ .34 | $ .63 | $ .70 |

| | Three Months Ended June 30, 2001 | Three Months Ended June 30, 2002 | Six Months Ended June 30, 2001 | Six Months Ended June 30, 2002 |
|---|---|---|---|---|
| Diluted earnings per share | | | | |
| Reported net income | $ .25 | $ .33 | $ .50 | $ .68 |
| Adjustments (net of income taxes) | | | | |
| Add back: Goodwill amortization | .04 | -- | .09 | -- |
| Add back: Trademarks and trade names amortization | .02 | -- | .03 | -- |
| Adjusted net income | $ .31 | $ .33 | $ .62 | $ .68 |

## Note 8 - Guarantor financial statements

Our credit facility and subordinated notes (the "Notes") are guaranteed (the "Subsidiary Guarantees") by each of our subsidiaries (the "Subsidiary Guarantors") except CONMED Receivables Corporation (the "Non-Guarantor Subsidiary"). The Subsidiary Guarantees provide that each Subsidiary Guarantor will fully and unconditionally guarantee our obligations under the credit facility and the Notes on a joint and several basis. Each Subsidiary Guarantor and Non-Guarantor Subsidiary is wholly-owned by CONMED Corporation. The following supplemental financial information sets forth on a condensed consolidating basis, condensed consolidating balance sheet, statement of income and statement of cash flows for the Parent Company Only, Subsidiary Guarantors and Non-Guarantor Subsidiary and for the Company as of December 31, 2001 and June 30, 2002 and for the three and six months ended June 30, 2001 and 2002.



CONMED CORPORATION
CONSOLIDATING CONDENSED BALANCE SHEET
December 31,2001
(in thousands)

| Parent Company Only | Subsidiary Guarantors | Non-Guarantor Subsidiary | Eliminations | Company Total |
|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents ....... | $ -- | $ 1,181 | $ 221 | $ -- | $ 1,402 |
| Accounts receivable, net ........ | -- | 7,198 | 43,990 | -- | 51,188 |
| Inventories .................... | 23,045 | 84,345 | -- | -- | 107,390 |
| Deferred income taxes ........... | 1,105 | -- | -- | -- | 1,105 |
| Prepaid expenses and other current assets ........... | 831 | 2,633 | -- | -- | 3,464 |
| Total current assets ... | 24,981 | 95,357 | 44,211 | -- | 164,549 |
| Property, plant and equipment, net ...... | 45,856 | 45,170 | -- | -- | 91,026 |
| Goodwill, net .......................... | 86,412 | 164,728 | -- | -- | 251,140 |
| Other intangible assets, net ........... | 8,177 | 181,575 | -- | -- | 189,752 |
| Other assets ........................... | 477,798 | 2,376 | -- | (475,033) | 5,141 |
| Total assets ................... | $ 643,224 | $ 489,206 | $ 44,211 | $(475,033) | $ 701,608 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| Current liabilities: | | | | | |
| Current portion of long-term debt | $ 72,241 | $ 1,188 | $ -- | $ -- | $ 73,429 |
| Accounts payable ................ | 5,078 | 14,799 | -- | -- | 19,877 |
| Accrued compensation ............ | 3,979 | 7,884 | -- | -- | 11,863 |
| Income taxes payable ............ | 2,372 | 135 | -- | -- | 2,507 |
| Accrued interest ................ | 4,760 | 37 | 157 | -- | 4,954 |
| Other current liabilities ....... | 4,634 | 2,573 | -- | -- | 7,207 |
| Total current liabilities ... | 93,064 | 26,616 | 157 | -- | 119,837 |
| Long-term debt ......................... | 241,404 | 21,096 | -- | -- | 262,500 |
| Deferred income taxes .................. | 18,655 | -- | -- | -- | 18,655 |
| Other long-term liabilities ............ | 6,467 | 285,329 | 41,947 | (316,761) | 16,982 |
| Total liabilities .............. | 359,590 | 333,041 | 42,104 | (316,761) | 417,974 |
| Shareholders' equity: | | | | | |
| Preferred stock ................. | -- | -- | -- | -- | -- |
| Common stock .................... | 253 | 1 | -- | (1) | 253 |
| Paid-in capital ................. | 160,757 | -- | 2,000 | (2,000) | 160,757 |
| Retained earnings ............... | 128,240 | 158,333 | 107 | (158,440) | 128,240 |
| Accumulated other comprehensive loss ..................... | (5,197) | (2,169) | -- | 2,169 | (5,197) |
| Less common stock in treasury, at cost .................. | (419) | -- | -- | -- | (419) |
| Total shareholders' equity | 283,634 | 156,165 | 2,107 | (158,272) | 283,634 |
| Total liabilities and shareholders' equity ...... | $ 643,224 | $ 489,206 | $ 44,211 | $(475,033) | $ 701,608 |



## CONMED CORPORATION
## CONSOLIDATING CONDENSED BALANCE SHEET
## June 30, 2002
## (in thousands)(unaudited)

| | Parent Company Only | Subsidiary Guarantors | Non-Guarantor Subsidiary | Eliminations | Company Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents ....... | $ -- | $ 840 | $ 37 | $ -- | $ 877 |
| Accounts receivable, net ........ | -- | 12,605 | 44,434 | -- | 57,039 |
| Inventories .................... | 24,509 | 90,360 | -- | -- | 114,869 |
| Deferred income taxes ........... | 880 | -- | 225 | -- | 1,105 |
| Prepaid expenses and other current assets ........... | 809 | 2,851 | -- | -- | 3,660 |
| Total current assets ... | 26,198 | 106,656 | 44,696 | -- | 177,550 |
| Property, plant and equipment, net ...... | 47,189 | 47,861 | -- | -- | 95,050 |
| Goodwill, net .......................... | 87,768 | 164,731 | -- | -- | 252,499 |
| Other intangible assets, net ........... | 7,950 | 179,123 | -- | -- | 187,073 |
| Other assets ........................... | 488,871 | 2,412 | -- | (485,542) | 5,741 |
| Total assets ................... | $ 657,976 | $ 500,783 | $ 44,696 | $(485,542) | $ 717,913 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| Current liabilities: | | | | | |
| Current portion of long-term debt | $ 77,462 | $ 1,265 | $ -- | $ -- | $ 78,727 |
| Accounts payable ................ | 6,253 | 19,700 | -- | -- | 25,953 |
| Accrued compensation ............ | 2,396 | 7,773 | -- | -- | 10,169 |
| Income taxes payable ............ | 2,015 | -- | -- | -- | 2,015 |

| | | | | | |
|---|---|---|---|---|---|
| Accrued interest ............... | 3,527 | 36 | 44 | -- | 3,607 |
| Other current liabilities ....... | 4,593 | 3,321 | -- | -- | 7,914 |
| Total current liabilities ... | 96,246 | 32,095 | 44 | -- | 128,385 |
| Long-term debt ......................... | 158,290 | 20,716 | -- | -- | 179,006 |
| Deferred income taxes .................. | 25,874 | -- | -- | -- | 25,874 |
| Other long-term liabilities ............ | 5,864 | 277,833 | 42,451 | (313,202) | 12,946 |
| Total liabilities .............. | 286,274 | 330,644 | 42,495 | (313,202) | 346,211 |
| Shareholders' equity: | | | | | |
| Preferred stock ................ | -- | -- | -- | -- | -- |
| Common stock ................... | 287 | 1 | -- | (1) | 287 |
| Paid-in capital ................ | 228,850 | -- | 2,000 | (2,000) | 228,850 |
| Retained earnings .............. | 146,266 | 170,830 | 201 | (171,031) | 146,266 |
| Accumulated other comprehensive loss .................... | (3,282) | (692) | -- | 692 | (3,282) |
| Less common stock in treasury, at cost ................. | (419) | -- | -- | -- | (419) |
| Total shareholders' equity | 371,702 | 170,139 | 2,201 | (172,340) | 371,702 |
| Total liabilities and shareholders' equity ...... | $ 657,976 | $ 500,783 | $ 44,696 | $(485,542) | $ 717,913 |



CONMED CORPORATION
CONSOLIDATING CONDENSED STATEMENT OF INCOME
Three Months Ended June 30, 2001
(in thousands)
(unaudited)

| | Parent Company Only | Subsidiary Guarantors | Eliminations | Company Total |
|---|---|---|---|---|
| Net sales .......................... | $ 20,503 | $ 83,668 | $ -- | $104,171 |
| Cost of sales ...................... | 11,816 | 38,149 | -- | 49,965 |
| Selling and administrative expense . | 6,067 | 27,855 | -- | 33,922 |
| Research and development expense ... | 350 | 3,126 | -- | 3,476 |
| | 18,233 | 69,130 | -- | 87,363 |
| Income from operations ............ | 2,270 | 14,538 | -- | 16,808 |
| Interest expense, net ............. | -- | 7,848 | -- | 7,848 |
| Income before income taxes ......... | 2,270 | 6,690 | -- | 8,960 |
| Provision for income taxes ......... | 817 | 2,409 | -- | 3,226 |
| Income before equity in earnings of unconsolidated subsidiaries ... | 1,453 | 4,281 | -- | 5,734 |
| Equity in earnings of unconsolidated subsidiaries .................... | 4,281 | -- | (4,281) | -- |
| Net income | $ 5,734 | $ 4,281 | $ (4,281) | $ 5,734 |

CONMED CORPORATION
CONSOLIDATING CONDENSED STATEMENT OF INCOME
Three Months Ended June 30, 2002
(in thousands)
(unaudited)

| | Parent Company Only | Subsidiary Guarantors | Non-Guarantor Subsidiary | Eliminations | Company Total |
|---|---|---|---|---|---|
| Net sales ........................ | $ 25,999 | $ 85,270 | $ -- | $ -- | $111,269 |
| Cost of sales .................... | 13,600 | 38,111 | -- | -- | 51,711 |
| Selling and administrative expense .................. | 7,929 | 27,622 | (410) | -- | 35,141 |
| Research and development expense .................. | 398 | 3,680 | -- | -- | 4,078 |
| | 21,927 | 69,413 | (410) | -- | 90,930 |
| Income from operations ........... | 4,072 | 15,857 | 410 | -- | 20,339 |
| Interest expense, net ............ | -- | 6,078 | 277 | -- | 6,355 |
| Income before income taxes ....... | 4,072 | 9,779 | 133 | -- | 13,984 |
| Provision for income taxes ....... | 1,466 | 3,520 | 48 | -- | 5,034 |
| Income before equity in earnings of unconsolidated subsidiaries ............. | 2,606 | 6,259 | 85 | -- | 8,950 |
| Equity in earnings of unconsolidated subsidiaries | 6,344 | -- | -- | (6,344) | -- |
| Net income ....................... | $ 8,950 | $ 6,259 | $ 85 | $ (6,344) | $ 8,950 |



CONMED CORPORATION
CONSOLIDATING CONDENSED STATEMENT OF INCOME
Six Months Ended June 30, 2001
(in thousands)
(unaudited)

| | Parent Company Only | Subsidiary Guarantors | Eliminations | Company Total |
|---|---|---|---|---|
| Net sales .......................... | 40,973 | $ 169,107 | $ -- | $ 210,080 |
| Cost of sales ..................... | 24,299 | 75,340 | -- | 99,639 |
| Selling and administrative expense . | 12,165 | 56,586 | -- | 68,751 |
| Research and development expense ... | 732 | 6,440 | -- | 7,172 |

| | | | | |
|---|---|---|---|---|
| | 37,196 | 138,366 | -- | 175,562 |
| Income from operations ............ | 3,777 | 30,741 | -- | 34,518 |
| Interest expense, net ............. | -- | 16,179 | -- | 16,179 |
| Income before income taxes ......... | 3,777 | 14,562 | -- | 18,339 |
| Provision for income taxes ......... | 1,360 | 5,242 | -- | 6,602 |
| Income before equity in earnings of unconsolidated subsidiaries ... | 2,417 | 9,320 | -- | 11,737 |
| Equity in earnings of unconsolidated subsidiaries .................... | 9,320 | -- | (9,320) | -- |
| Net income ......................... | $ 11,737 | $ 9,320 | $ (9,320) | $ 11,737 |



CONMED CORPORATION
CONSOLIDATING CONDENSED STATEMENT OF INCOME
Six Months Ended June 30, 2002
(in thousands)
(unaudited)

| | Parent Company Only | Subsidiary Guarantors | Non-Guarantor Subsidiary | Eliminations | Company Total |
|---|---|---|---|---|---|
| Net sales ........................ | $ 52,298 | $ 172,176 | $ -- | $ -- | $ 224,474 |
| Cost of sales .................... | 27,603 | 78,212 | -- | -- | 105,815 |
| Selling and administrative expense .................. | 15,376 | 54,977 | (744) | -- | 69,609 |
| Research and development expense .................. | 827 | 7,075 | -- | -- | 7,902 |
| | 43,806 | 140,264 | (744) | -- | 183,326 |
| Income from operations ........... | 8,492 | 31,912 | 744 | -- | 41,148 |
| Interest expense, net ............ | -- | 12,386 | 597 | -- | 12,983 |
| Income before income taxes ........ | 8,492 | 19,526 | 147 | -- | 28,165 |
| Provision for income taxes ........ | 3,057 | 7,029 | 53 | -- | 10,139 |
| Income before equity in earnings of unconsolidated subsidiaries ............. | 5,435 | 12,497 | 94 | -- | 18,026 |
| Equity in earnings of unconsolidated subsidiaries | 12,591 | -- | -- | (12,591) | -- |
| Net income ....................... | $ 18,026 | $ 12,497 | $ 94 | $ (12,591) | $ 18,026 |

CONMED CORPORATION
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2001
(in thousands)
(unaudited)

| | Parent Company Only | Subsidiary Guarantors | Eliminations | Company Total |
|---|---|---|---|---|
| Net cash flows from operating activities .............................. | $ 7,037 | $ 10,532 | $ -- | $ 17,569 |
| Cash flows from investing activities: | | | | |
| Distributions from subsidiaries ......... | 10,689 | -- | (10,689) | -- |
| Purchases of property, plant and equipment ................. | (7,183) | (1,472) | -- | (8,655) |
| Net cash provided (used) by investing activities | 3,506 | (1,472) | (10,689) | (8,655) |
| Cash flows from financing: | | | | |
| Distributions to parent ........... | -- | (10,689) | 10,689 | -- |
| Borrowings under revolving credit facility ............ | 7,000 | -- | -- | 7,000 |
| Proceeds from issuance of common stock ............... | 507 | -- | -- | 507 |
| Payments on long-term debt ........ | (18,050) | -- | -- | (18,050) |
| Net cash provided (used)by financing activities ........... | (10,543) | (10,689) | 10,689 | (10,543) |
| Effect of exchange rate changes on cash and cash equivalents .................... | -- | (917) | -- | (917) |
| Net increase (decrease) in cash and cash equivalents ........................ | -- | (2,546) | -- | (2,546) |
| Cash and cash equivalents at beginning of period ..................... | -- | 3,470 | -- | 3,470 |
| Cash and cash equivalents at end of period ........................... | $ -- | $ 924 | $ -- | $ 924 |



CONMED CORPORATION
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2002
(in thousands)
(unaudited)

| | Parent Company Only | Subsidiary Guarantors | Non-Guarantor Subsidiary | Eliminations | Company Total |
|---|---|---|---|---|---|
| Net cash flows from operating activities ........................ | $ 4,158 | $ 14,284 | $ (561) | $ -- | $ 17,881 |
| Cash flows from investing activities: | | | | | |
| Net distributions from subsidiaries | 10,133 | -- | -- | (10,133) | -- |
| Payments related to business acquisitions .................... | (1,359) | -- | -- | -- | (1,359) |
| Purchases of property, plant and equipment .................. | (2,863) | (5,565) | -- | -- | (8,428) |
| Net cash provided (used) by investing activities . | 5,911 | (5,565) | -- | (10,133) | (9,787) |

| | | | | | |
|---|---|---|---|---|---|
| Cash flows from financing: | | | | | |
| Borrowing on note payable from parent ..................... | -- | -- | 377 | (377) | -- |
| Net distributions to parent ........ | -- | (10,510) | -- | 10,510 | -- |
| Borrowings (repayments) under revolving credit facility ........ | (2,000) | -- | -- | -- | (2,000) |
| Net proceeds from issuance of common stock ..................... | 66,594 | -- | -- | -- | 66,594 |
| Net proceeds from option exercise .. | 3,533 | -- | -- | -- | 3,533 |
| Repurchase of warrant on common stock ..................... | (2,000) | -- | -- | -- | (2,000) |
| Payments on long-term debt ......... | (76,196) | -- | -- | -- | (76,196) |
| Net cash provided (used) by financing activities ... | (10,069) | (10,510) | 377 | 10,133 | (10,069) |
| Effect of exchange rate changes on cash and cash equivalents ............... | -- | 1,450 | -- | -- | 1,450 |
| Net increase (decrease) in cash and cash equivalents ................... | -- | (341) | (184) | -- | (525) |
| Cash and cash equivalents at beginning of period ................ | -- | 1,181 | 221 | -- | 1,402 |
| Cash and cash equivalents at end of period ...................... | $ -- | $ 840 | $ 37 | $ -- | $ 877 |



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

### Forward-Looking Statements Made in this Form 10-Q

In this Form 10-Q, we make forward-looking statements about our financial condition, results of operations and business. Forward-looking statements are statements made by us concerning events that may or may not occur in the future. These statements may be made directly in this document or may be "incorporated by reference" from other documents. You can find many of these statements by looking for words like "believes," "expects," "anticipates," "estimates" or similar expressions.

### Forward-Looking Statements are not Guarantees of Future Performance

Forward-looking statements involve known and unknown risks, uncertainties and other factors, including those that may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include those identified under "Risk Factors" in our Annual Report on Form 10-K for the year-ended December 31, 2001 and the following, among others:

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

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" below and "Business" in our Annual Report on Form 10-K for the year-ended December 31, 2001 for a further discussion of these factors. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Form 10Q or to reflect the occurrence of unanticipated events.

Critical Accounting Policies

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

Accounts receivable sale

On November 1, 2001, we entered into a five-year accounts receivable sales agreement pursuant to which we and certain of our subsidiaries sell on an ongoing basis certain accounts receivable to CONMED Receivables Corporation, ("CRC"), our wholly-owned special-purpose subsidiary. CRC may in turn sell up to an aggregate $50.0 million undivided percentage ownership interest in such receivables to a commercial paper



conduit (the "conduit purchaser"). For receivables that have been sold, we retain collection and administrative responsibilities as agent for the conduit purchaser. As of December 31, 2001 and June 30, 2002, the undivided percentage ownership interest in receivables sold by CRC to the conduit purchaser aggregated $40.0 million and $36.0 million, respectively, which has been accounted for as a sale and reflected in the balance sheet as a reduction in accounts receivable. We used the initial $40.0 million in proceeds from the sale of accounts receivable in November 2001 to repay a portion of our term loans under our credit agreement. Expenses associated with the sale of accounts receivable, including the conduit purchaser's financing cost of issuing commercial paper, were $0.3 million and $0.6 million, in the three and six months ended June 30, 2002, respectively.

There are certain statistical ratios, primarily related to sales dilution and losses on accounts receivable which must be calculated and maintained on the pool of receivables in order to continue selling to the conduit purchaser. We believe that additional accounts receivable arising in the normal course of business will be of sufficient quality and quantity to qualify for sale under the accounts receivable sales agreement. In the event that new accounts receivable arising in the normal course of business do not qualify for sale, then collections on sold receivables will flow to the conduit purchaser rather than being used to fund new receivable purchases. If this were to occur, we would need to access an alternate source of working capital.

Goodwill and other intangible assets

Goodwill represents the excess of purchase price over fair value of identifiable net assets of acquired businesses. Other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. Goodwill and other intangible assets have been amortized over periods ranging from 5 to 40 years. Because of our history of growth through acquisitions, goodwill and other intangible assets comprise a substantial portion (61.2% at June 30, 2002) of our total assets.

In June 2001, the Financial Accounting Standards Board approved Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets", ("SFAS 142"). We adopted SFAS 142 effective January 1, 2002. Under this standard, amortization of goodwill and certain intangible assets, including certain intangibles recorded as a result of past business combinations, is to be discontinued upon adoption of SFAS 142.

During 2002, we performed tests of goodwill and indefinite-lived intangible assets as of January 1, 2002. We tested for impairment using the two-step process prescribed in SFAS 142. The first step is a screen for potential impairment. The second step, which has been determined not to be necessary, measures the amount of any impairment. No impairment losses have been recognized as a result of these tests. During the three and six months ended June 30, 2002, net income increased by approximately $1.4 million and $2.8 million respectively, as a result of the adoption of SFAS 142.

Derivative financial instruments

We use an interest rate swap, a form of derivative financial instrument, to manage interest rate risk. We have designated as a cash-flow hedge, an interest rate swap which effectively converts $50.0 million of LIBOR-based floating rate debt under our credit facility into fixed rate debt with a base interest rate of 7.01%. The interest rate swap expires in June 2003 and is included in liabilities on the balance sheet with a fair value approximating $2.4 million. During the six months ended June 30, 2002, gross holding losses on the interest rate swap were $.6 million, before income taxes, and holding losses of $1.3 million, before income taxes, were reclassified and included



in net income. There were no material changes in our market risk during the three and six months ended June 30, 2002. For a detailed discussion of market risk, see our Annual Report on Form 10-K for the year ended December 31, 2001, Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk.

Revenue recognition

Revenue is recognized when title to the goods and risk of loss pass to our customers. Amounts billed to customers related to shipping and handling costs are included in net sales. We assess the risk of loss on accounts receivable and adjust the allowance for doubtful accounts based on this risk assessment. Historically, losses on accounts receivable have not been material. We believe the allowance for doubtful accounts of $1.3 million at June 30, 2002 is adequate to provide for any potential losses from accounts receivable.

Results of Operations

Three months ended June 30, 2002 compared to three months ended June 30, 2001

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

| | Three Months Ended June 30, 2001 | Three Months Ended June 30, 2002 |
|---|---|---|
| | (unaudited) | |
| Net sales | 100.0% | 100.0% |
| Cost of sales | 48.0 | 46.5 |
| Gross margin | 52.0 | 53.5 |
| Selling and administrative expense | 32.6 | 31.6 |
| Research and development expense | 3.3 | 3.7 |
| Income from operations | 16.1 | 18.2 |
| Interest expense, net | 7.5 | 5.7 |
| Income before income taxes | 8.6 | 12.5 |
| Provision for income taxes | 3.1 | 4.5 |
| Net income | 5.5% | 8.0% |

Sales for the quarter ended June 30, 2002 were $111.3 million, an increase of 6.8% compared to sales of $104.2 million in the same quarter a year ago. Adjusted for constant foreign currency exchange rates, sales growth in the second quarter of 2002 would have been approximately 6.3% as compared to the same period a year ago.

- Sales in our orthopedic businesses increased 2.7% to $68.2 million from $66.4 million in the comparable quarter last year.

- Arthroscopy sales, which represented approximately 60.4% of total second quarter 2002 orthopedic revenues, grew 8.4% to $41.2 million from $38.0 million in the same period a year ago on strength in sales of disposable products and video equipment.

o Powered surgical instrument sales, which represented approximately 39.6% of orthopedic revenues, decreased 4.9% to $27.0 million from $28.4 million in the same quarter last year. We introduced our PowerPro(R)battery powered product line in February 2002, replacing older versions of battery powered instruments. First shipments of this new product line were made in March 2002. We expect that once PowerPro(R)becomes established in the marketplace, it will enable us to resume overall growth in powered surgical instrument sales.



o Patient care sales for the three months ended June 30, 2002 were $17.1 million, a 2.8% decline from $17.6 million in the same period a year ago, driven primarily by declines in sales of our surgical suction product lines as a result of significant competition and pricing pressures. Sales of ECG and other patient care products were largely stable in the second quarter of 2002 as compared with the same period a year ago.

o Electrosurgery sales for the three months ended June 30, 2002 were $17.0 million, a decrease of 1.0% from $17.1 million in the second quarter of last year, as sales of electrosurgical generators and disposables were flat compared with the same period a year ago.

o Sales of endoscopy products increased to $9.0 million in the three months ended June 30, 2002 from $3.0 million in the same period a year ago, primarily as a result of our acquisition of the minimally invasive surgical business of Imagyn Medical Technologies, Inc. on July 6, 2001 (the "second Imagyn acquisition").

Cost of sales increased to $51.7 million in the second quarter of 2002 as compared to $50.0 million in the same quarter a year ago as a result of the increased sales volumes described above, while gross margin percentage increased to 53.5% in the second quarter of 2002 compared to 52.0% in the second quarter of 2001, primarily as a result of increased sales in the arthroscopy and endoscopy product lines which carry higher gross margins than certain of our other product lines.

Selling and administrative expense increased to $35.1 million in the second quarter of 2002 as compared to $33.9 million in the second quarter of 2001. As a percentage of sales, selling and administrative expense totaled 31.6% in the second quarter of 2002 compared to 32.6% in the second quarter of 2001. During the quarter ended June 30, 2002, selling and administrative expense decreased by approximately $2.2 million, before income taxes, as a result of the adoption of SFAS 142. Excluding the impact of the adoption of SFAS 142, selling and administrative expense in the second quarter of 2002 would have been approximately $37.3 million or 33.5% as a percentage of sales, increasing by approximately .9% when compared with the same period a year ago, but remaining within the range of our historical percentages.

Research and development expense increased to $4.1 million in the second quarter of 2002 as compared to $3.5 million in the second quarter of 2001. This increase represents continued research and development efforts primarily focused on new product development in the orthopedic product lines. As a percentage of sales, research and development expense increased to 3.7% in the current quarter compared to 3.3% in the same quarter a year ago but remains within the range of our historical percentages.

Interest expense in the second quarter of 2002 was $6.4 million compared to $7.8 million in the second quarter of 2001. The decrease in interest expense is primarily a result of lower total borrowings outstanding during the current quarter as compared to the same period a year ago, as borrowings have declined to $257.7 million at June 30, 2002 as compared to $367.7 million at June 30, 2001. Additionally, the weighted average interest rates on our borrowings has declined to 7.03% at June 30, 2002 as compared to 7.17% at June 30, 2001.

Six months ended June 30, 2002 compared to six months ended June 30, 2001

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



| | Six Months Ended June 30, 2001 | 2002 |
|---|---|---|
| | (unaudited) | |
| Net sales | 100.0% | 100.0% |
| Cost of sales | 47.4 | 47.1 |
| Gross margin | 52.6 | 52.9 |
| Selling and administrative expense | 32.7 | 31.1 |
| Research and development expense | 3.5 | 3.5 |
| Income from operations | 16.4 | 18.3 |
| Interest expense, net | 7.7 | 5.8 |
| Income before income taxes | 8.7 | 12.5 |
| Provision for income taxes | 3.1 | 4.5 |
| Net income | 5.6% | 8.0% |

Sales for the six months ended June 30, 2002 were $224.5 million, an increase of 6.9% compared to sales of $210.1 million in the same period a year ago. Fluctuations in foreign currency exchange rates in the first half of 2002 as compared to the same period a year ago did not have a significant effect on sales.

- Sales in our orthopedic businesses increased 0.5% to $137.9 million from $137.2 million in the comparable period last year.

- Arthroscopy sales, which represented approximately 59.8% of total first half 2002 orthopedic revenues, grew 5.5% to $82.5 million from $78.2 million in the same period a year ago on strength in sales of disposable products and video equipment.

- Powered surgical instrument sales, which represented approximately 40.2% of total first half 2002 orthopedic revenues, decreased 6.1% to $55.4 million from $59.0 million in the same period last year. We introduced our PowerPro(R) battery powered product line in February 2002, replacing older versions of battery powered instruments. First shipments of this new product line were made in March 2002. We expect that once PowerPro(R) becomes established in the marketplace, it will enable us to resume overall growth in powered surgical instrument sales.

- Patient care sales for the six months ended June 30, 2002 were $34.4 million, a 2.3% decline from $35.2 million in the same period a year ago, driven primarily by declines in sales of our surgical suction product lines as a result of significant competition and pricing pressures. Sales of ECG and other patient care products were largely stable in the first half of 2002 as compared with the same period a year ago.

- Electrosurgery sales for the six months ended June 30, 2002 were $33.8 million, an increase of 5.3% from $32.1 million in the same period a year ago, driven by strong increases in electrosurgical disposables sales.

- Sales of endoscopy products increased to $18.4 million in the six months ended June 30, 2002 from $5.6 million in the same period a year ago, primarily as a result of the second Imagyn acquisition.

Cost of sales increased to $105.8 million in the first half of 2002 as compared to $99.6 million in the same period a year ago as a result of the increased sales volumes described above, while gross margin percentage increased to 52.9% in the first half of 2002 compared to 52.6% in the first half of 2001, primarily as a result of increased sales in the arthroscopy and endoscopy product lines which carry higher gross margins than certain of our other product lines.

Selling and administrative expense increased to $69.6 million in the first half of 2002 as compared to $68.8 million in the first half of 2001. As a percentage of sales, selling and administrative expense totaled 31.1% in the first half of 2002 compared to 32.7% in the first half of 2001. During the six months ended June 30, 2002, selling and administrative expense decreased by approximately $4.4 million, before income taxes, as a result of the adoption of SFAS 142. Excluding the impact of the adoption of SFAS 142, selling and administrative expense in the first half of 2002 would have been approximately $74.0 million or 33.0% as a percentage of sales, increasing slightly when compared with the same period a year ago but remaining within the range of our historical percentages.

Research and development expense increased to $7.9 million in the first half of 2002 as compared to $7.2 million in the first half of 2001. This increase represents continued research and development efforts primarily focused on new product development in the orthopedic product lines. As a percentage of sales, research and development expense remained constant at 3.5% in the first half of 2002 compared to the same period a year ago.

Interest expense in the first six months of 2002 was $13.0 million compared to $16.2 million in the first six months of 2001. The decrease in interest expense is primarily a result of lower total borrowings outstanding during the current period as compared to the same period a year ago, as borrowings have declined to $257.7 million at June 30, 2002 as compared to $367.7 million at June 30, 2001. Additionally, the weighted average interest rates on our borrowings has declined to 7.03% at June 30, 2002 as compared to 7.17% at June 30, 2001.

Liquidity and Capital Resources

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

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

On May 29, 2002, we completed a public offering of 3.0 million shares of our common stock. Net proceeds to the Company related to the sale of the shares approximated $66.6 million and was used to reduce indebtedness under our credit facility. We expect to continue to use cash flow from our operations and borrowings under our revolving credit facility to finance our operations, our debt service under our credit facility and term borrowings and the funding of our capital expenditures.

Our term loans under our credit facility at June 30, 2002 aggregate $49.0 million. Our term loans are repayable quarterly over remaining terms of approximately three years. Our credit facility also includes a $100.0 million revolving credit facility which expires December 31, 2002, of which $44.0 million was available at June 30, 2002. The borrowings under the credit facility carry interest rates based on a spread over LIBOR or an alternative base interest rate. The weighted average interest rates at June 30, 2002 under the term loans and the revolving credit facility were 3.98% and 5.00%, respectively.



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

We used term loans to purchase the property in Largo, Florida utilized by our Linvatec subsidiary. The term loans consist of a Class A note bearing interest at 7.50% per annum with semiannual payments of principal and interest through June 2009, a Class C note bearing interest at 8.25% per annum compounded semiannually through June 2009, after which semiannual payments of principal and interest will commence, continuing through June 2019 and a seller-financed note bearing interest at 6.50% per annum with monthly payments of principal and interest through July 2013. The principal balances outstanding on the Class A note, Class C note and seller-financed note aggregate $11.2 million, $6.7 million and $4.1 million, respectively, at June 30, 2002.

Our net working capital position was $49.2 million at June 30, 2002 as compared to $44.7 million at December 31, 2001. Included in net working capital is $56.0 million owed on our revolving credit facility which terminates on December 31, 2002. We are currently in discussions with our bank group to refinance our credit agreement including the revolving credit facility. Based on our discussions, we believe that we will be able to successfully complete a new credit arrangement in the third quarter of 2002 which will provide sufficient capital for our business. However, because of changed economic conditions compared to market conditions in 1997 when our present credit agreement was completed, we expect, based on discussions with our bank group, that any new facility will carry interest costs 75 to 100 basis points higher than our present credit agreement. Based on the amounts outstanding at June 30, 2002 under the credit agreement, an increase of 75 to 100 basis points would result in an increase in annual interest expense of approximately $.8 million to $1.1 million. Assuming an all new credit facility is entered into in the third quarter, we expect to record an extraordinary charge in the third quarter of approximately $1.0 million, net of income taxes, related to the early extinguishment of debt, to write off the remaining unamortized deferred financing costs associated with the remaining three years on the current credit facility.

On November 1, 2001, we entered into a five-year accounts receivable sales agreement pursuant to which we and certain of our subsidiaries sell on an ongoing basis certain accounts receivable to CONMED Receivables Corporation, a wholly-owned special-purpose subsidiary. CRC may in turn sell up to an aggregate $50.0 million undivided percentage ownership interest in those receivables to a commercial paper conduit. As of December 31, 2001 and June 30, 2002, the undivided percentage ownership interest in receivables sold by CRC to a commercial paper conduit aggregated $40.0 million and $36.0 million, respectively, which has been accounted for as a sale and reflected in the balance sheet as a reduction in accounts receivable. We used the initial $40.0 million in proceeds from the sale of accounts receivable in November 2001 to repay a portion of our term loans under our credit agreement. There are certain statistical ratios primarily related to sales dilution and losses on accounts receivable which must be calculated and maintained on the pool of receivables in order to continue selling to the conduit purchaser. We believe that additional accounts receivable arising in the normal course of business will be of sufficient quality and quantity to qualify for sale under the accounts receivable sales agreement. In the event that new accounts receivable arising in the normal course of business do not qualify for sale, then collections on sold receivables will flow to the conduit purchaser rather than being used to fund new receivable purchases. If this were to occur, we would need to access an alternate source of working capital.

Net cash provided by operations, which we also refer to as "operating cash flow," increased to $17.9 million for the



first half of 2002 compared to $17.6 million for the same period a year ago. During the six months ended June 30, 2002, operating cash flow decreased by $4.0 million due to a decrease in the sale of accounts receivable under the accounts receivable sales agreement. Excluding the decrease in accounts receivable sales, operating cash flow increased to $21.9 million.

In reconciling net income to operating cash flow, operating cash flow in the first half of 2002 was positively impacted by depreciation, amortization and increases in accounts payable and deferred income taxes and negatively impacted primarily by increases in accounts receivable and inventory and decreases in accrued compensation and accrued interest. The increases in accounts receivable and inventory are primarily related to an increase in sales. The increases in accounts payable and deferred income taxes and decreases in accrued compensation and interest are primarily related to the timing of the payment of these liabilities.

Capital expenditures in the six months ended June 30, 2002 were $8.4 million compared to $8.7 million in the same period a year ago. These capital expenditures represent the ongoing capital investment requirements of our business and are expected to continue at the rate of approximately $12.0 to $14.0 million annually. Net cash used by investing activities in the six months ended June 30, 2002 also included $1.4 million related to the purchase of a product line.

Financing activities in the first half of 2002 consisted primarily of the net proceeds of $66.6 million received by the Company as a result of the completion of a public offering of 3.0 million shares of our common stock. The proceeds of the stock offering were used to repay term loans under our credit facility. Repayments on our term debt and revolving credit facility as a result of the stock offering and cash generated from operations in the first half of 2002 totaled $76.2 million and $2.0 million, respectively. Concurrent with the stock offering, we repurchased for $2.0 million from Bristol-Myers Squibb Company a warrant exercisable for 1.5 million shares of our common stock. Proceeds from the exercise of stock options in the first half of 2002 totaled $3.5 million.

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

Contractual Obligations

There were no capital lease obligations or unconditional purchase obligations as of June 30, 2002. The following table summarizes our contractual obligations related to operating leases and long-term debt as of June 30, 2002:

| | (Amounts in thousands) | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | Thereafter |
| Long-term debt .................... | $ 57,109 | $ 37,023 | $ 1,854 | $ 14,313 | $ 1,943 | $145,491 |
| Operating lease obligations ..................... | 866 | 1,255 | 1,036 | 962 | 933 | 1,950 |
| Total contractual cash obligations ................ | $57,975 | $38,278 | $ 2,890 | $ 15,275 | $ 2,876 | $147,441 |

Included in long-term debt obligations in 2002 is $56.0 million due under our revolving credit facility.



As indicated under "Liquidity and Capital Resources", we are currently in discussions with our bank group to refinance our credit agreement including the revolving credit facility. If these negotiations are successful, payments on a substantial portion of our long-term debt due in 2002 through 2005, including the current portion of that long-term debt represented by our revolving credit facility, would be due at later dates.

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

(a) The annual meeting of Shareholders of CONMED Corporation (the "Company") was held on May 14, 2002.

(b) All director nominees were elected.

(c) Certain matters voted upon at the meeting and the votes cast with respect to such matters are as follows:

Proposals and Vote Tabulations

| | Votes Cast | | | |
|---|---|---|---|---|
| Management Proposals | For | Against | Abstain | Broker Non-votes |
| To ratify the appointment of Independent accountants for the Company for 2002; | 22,099,783 | 554,174 | 12,668 | -- |
| To approve and authorize an an amendment to the Company's 1999 Long Term Incentive Plan; | 14,709,167 | 5,313,246 | 60,380 | 2,583,832 |
| To approve and authorize amendments to the Company's Stock Option Plan for Non-Employee Directors; | 15,709,496 | 4,272,779 | 100,518 | 2,583,832 |
| To approve and adopt an employee stock purchase plan | 19,124,783 | 883,162 | 73,882 | 2,584,798 |

Election of Directors

| Director | Votes Received | Votes Withheld |
|---|---|---|
| Eugene R. Corasanti | 18,878,224 | 3,788,401 |
| Joseph J. Corasanti | 19,058,496 | 3,608,129 |
| Bruce F. Daniels | 21,442,676 | 1,223,949 |
| William D. Matthews | 21,442,697 | 1,223,928 |
| Robert E. Remmell | 21,163,886 | 1,502,739 |
| Stuart J. Schwartz | 21,442,676 | 1,223,949 |

Item 6. Exhibits and Reports on Form 8-K

List of Exhibits

| Exhibit No. | Description of Exhibit |
|---|---|
| 99.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 99.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

Reports on Form 8-K

None



SIGNATURES

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

CONMED CORPORATION
(Registrant)

Date: August 14, 2002

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



Exhibit Index

| Exhibit | | Sequential Page Number |
|---|---|---|
| 99.1 | Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | E-1 |
| 99.2 | Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | E-2 |

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. ss. 1350, the undersigned officer of CONMED Corporation (the "Company") hereby certifies, that the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Eugene R. Corasanti

Eugene R. Corasanti
Chief Executive Officer
August 14, 2002

The foregoing certification is being furnished solely pursuant to 18 U.S.C. ss. 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. ss. 1350, the undersigned officer of CONMED Corporation (the "Company") hereby certifies, that the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert D. Shallish Jr.
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Robert D. Shallish, Jr.
Chief Financial Officer
August 14, 2002

The foregoing certification is being furnished solely pursuant to 18 U.S.C. ss. 1350 and is not being filed as part of the Report or as a separate disclosure document.