

CER Report

NYSE AMEX: CONM

January 17, 2012

Rating: Accumulate
(Initial)

Recent Price: \$2.82
(1/13/12)

Price Target: \$4.50
(Initial)

Conmed Healthcare Management, Inc.

Healthcare; Correctional Services

MARKET DATA

52-Week High/Low	\$3.95 - \$2.51
Ave. Daily Volume (6-mos.)	72 K
Shares Outstanding	13.1 M
Inside Ownership	19.8%
Institutional Ownership	13%
Float	10.5 M
Short Interest (% of float)	<1%

Conmed Healthcare Management, Inc. is a provider of medical and behavioral healthcare in county and municipal detention centers around the U.S. The Company serves clients in 43 county jurisdictions in nine states and is the largest provider of correctional health care in its home state of Maryland. Conmed has built a strong reputation for high-quality care in its twenty-seven years of operation. The Company claims a 100% client retention rate and accreditation approval.

FINANCIAL DATA

Market Capitalization	\$36.9 M
- Cash & Equivalents	\$15.0 M
+ Long-term Debt	\$ -0- M
Enterprise Value	\$21.9 M
Book Value	\$17.0 M
Working Capital	\$11.7 M
Dividend Yield	Nil

Balance sheet figures pro forma as of 9/30/11

HIGHLIGHTS

- Revenue Growth.** Conmed recorded \$51.0 million in total sales in the first nine months of 2011, representing a 13.6% year-over-year increase. A busy contract pipeline portends a continuation of Conmed's growth trajectory.
- Market Penetration.** Conmed recently won a new multi-year contract in Galveston, Texas valued at an estimated \$3.5 million in annual revenue and expanding the Company's foothold in the large South Central market. We estimate this contract award increased the Company's annual revenue run rate to \$79 million.
- Cancelled Buyout.** Conmed had agreed a purchase offer of \$3.85 per share from Ayelet Investments, an affiliate of one of the Company's largest shareholders. Ayelet withdrew its offer one day before Conmed's shareholder vote on the proposal scheduled November 15, 2011.
- New Coverage.** We reinstate coverage of CONM with an Accumulate rating and set a twelve-month price target of \$4.50. Our price target is based on a multiple of 25.0 times and our 2012 earnings estimate of \$0.18. In our view, the multiple of 25.0 times earnings is supported by the Company's consistently strong organic growth.
- Outlook.** We expect strong year-over-year comparisons at the top- and bottom-lines in the next few quarters to refocus investors' attention to fundamentals. New contract announcements should also serve as strong catalysts for the stock. Furthermore, we expect upward influence on the share price as management begins execution on a planned \$5.0 million stock buyback announced in December 2011.

	SALES	NET INC	CFO	EPS
2010A	\$60.7	\$1.5	\$2.7	\$0.09
1Q11A	\$16.3	\$0.4	\$1.3	\$0.03
2Q11A	\$16.7	(\$0.1)	\$0.0	(\$0.01)
3Q11A	\$18.1	\$0.1	\$0.4	\$0.00
4Q11E	\$19.0	\$0.5	\$1.0	\$0.03
FY11E	\$70.1	\$0.8	\$2.7	\$0.06
FY12E	\$85.0	\$2.5	\$4.9	\$0.18

Dollars in millions, except EPS; Fiscal year ends Dec.

VALUATION

Price/Sales	0.7 X
Price/CFO	16.8 X
Price/Trailing 12-mo. Earnings	56.8 X
Price/Book Value	2.3 X
Consensus EPS Estimate 2011 - \$0.15	
Forward PE	18.8 X
Consensus EPS Estimate 2012 - \$0.19	
Forward PE	14.8 X

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PLEASE READ THE IMPORTANT DISCLOSURES AND DISCLAIMER ON PAGES 23 AND 24 OF THIS REPORT.

SUMMARY

In our view, Conmed Healthcare Management is one of the best kept investment secrets in the U.S. equity market. Near flawless execution has given Conmed a nation-wide reputation as a reliable operator of quality health care services in correctional facilities. Conmed has an exemplary track record in quality of care, achieving 100% accreditation approval for its various county and municipal clients. Near-perfect customer retention has been one factor in building the Company’s recurring revenue base and expanding its footprint across the U.S. corrections market. Conmed’s very first client in St. Mary’s, Maryland elected to expand services when the jurisdiction recently renewed its contract with Conmed. In our view, this is a testimonial to the competitive rigor of the Company’s increasingly robust service offering that includes medical and behavior care, dental care, disease management and electronic record-keeping along with other value-added services.

Cancelled Buyout; Strategic Focus

Conmed had agreed a purchase offer of \$3.85 per share from Ayelet Investments, an affiliate of Dr. James H. Desnick one of the Company’s largest shareholders. The all-cash deal was valued at \$57 million, implying valuation at a multiple of 15.4 times trailing EBITDA. The transaction was expected to close in the December 2011 quarter following approval of Conmed’s shareholders. Ayelet had received full commitment for financing, but eventually found certain terms unpalatable. Ayelet withdrew its offer one day before Conmed’s shareholder vote on the proposal scheduled November 15, 2011.

Conmed management is returning its focus to what it knows best. The Company has consistently delivered results according to its strategic plan, expanding what was once a largely east coast presence to a multi-regional footprint. The expansion has been largely through the capture of market share by winning clients away from competitors and converting what had been in-house healthcare services to out-sourced delivery. During our recent interviews with CEO Richard Turner and CFO Thomas Fry vowed to turn up the heat on capturing market share by expanding into new locations and finding complementary applications for the Conmed healthcare solution. We believe it is only a matter of time before the Company achieves sufficient penetration of the market to claim a full national presence.

Oversold Stock

Conmed shares are trading near the stock’s 52-week low. The stock has only partially recovered after falling dramatically in the first days after the buyout failure was announced in mid-November 2011 and. We believe investors have not fully absorbed the surprise cancellation of the proposed buyout. We also believe there remains some confusion about the Company’s future plans to seek an alternative buyer. In our view, the stock is oversold against the Company’s consistently strong fundamental performance and presents a compelling opportunity to establish or expand positions.

Exhibit I: Stock Chart



Source: StockCharts.com

INVESTMENT HIGHLIGHTS

Positives

- Large market opportunity in outsourced medical, behavioral health care for U.S. correctional agencies
- Opportunity to apply the Conmed proprietary medical and behavioral health standard of care in adjacent markets, including federal and state agencies outside the correctional market
- Exemplary track record for quality care evidence by 100% approval by correctional accreditation authorities and 100% customer retention in 26-year history of operation
- Building customer base with a presence in several of the most populous regions of the U.S.; low capital requirements for expansion
- Successful track record in crafting and managing profitable contractual relationships that each contribute to operating profits
- Well developed proprietary standard of care protocol that achieves positive outcomes for inmate-patients while minimizing costs for local government clients
- Strategic focus on short-duration county and municipal detention facilities where exposure to catastrophic illness is lower compared to long-stay prisons
- Strong balance sheet with ample cash resources, adequate working capital, and no debt
- Consistent profit margins with potential for improvement through expense management
- Strong execution by well qualified management team that has been augmented through acquisitions and direct hires of correctional health industry leaders

Negatives

- Highly competitive environment in which Conmed and its rivals vie head-to-head in formal bidding process that often favors low-cost providers
- Numerous competitors, including large national correctional operations, regional correctional healthcare providers, local hospitals and physicians group
- Narrow profit margins that must be carefully managed around contractual obligations and sometimes unpredictable healthcare requirements of a highly fluid detainee population across numerous long-term contracts
- Potential for litigation related to health and behavior care of unique patient population in the correctional setting typified by contentious exchanges between detainees and authorities
- Potential for variance in earnings from quarter to quarter due to unpredictable healthcare requirements of ever-changing patient population that might include unexpected hospitalization or other costly medical treatment
- Unpredictable growth patterns due to a sometime lengthy sales and contracting cycle in which the Company must engage county and municipal decision makers in evaluating particular needs and crafting a custom solution
- Significant insider ownership and institutional positions that have lead to reduced constructive float and shallow trading volume
- Relatively wide bid-ask spreads that discourages some investors in taking long positions in the stock

VALUATION AND OUTLOOK

We reinstate coverage of CONM with an Accumulate rating and set a twelve-month price target of \$4.50. Our price target is based on a multiple of 25.0 times and our 2012 earnings estimate of \$0.18. In our view, the multiple of 25.0 times earnings is supported by the Company's consistently strong organic growth.

We believe that Conmed's prospects for top-line growth and profitability are stronger than ever. Due to a robust business pipeline and what we see as solid execution, Conmed has been able to report consistent revenue growth over the long-term. Although unexpected medical expenses could lead to earnings variance in any given quarter, we believe that risk is more than priced into the stock at current levels. We

note that the risk of measurable variance in profit margins due to unusual medical expenses will diminish as the patient population is increased and diversified through the addition of new contracts. In our view, as the business builds and risk of variance diminishes, the stock merits a higher valuation.

We expect strong year-over-year comparisons at the top- and bottom-lines in the next few quarters to refocus investors' attention to fundamentals. New contract announcements should also serve as strong catalysts for the stock. Furthermore, we expect upward influence on the share price as management begins execution on a planned \$5.0 million stock buyback announced in December 2011. The effect is likely to be two-fold: 1) increased demand for shares as the Company enters the open market to buy shares and 2) the attraction of new investors who view stock buy-back situations as a strong market signal.

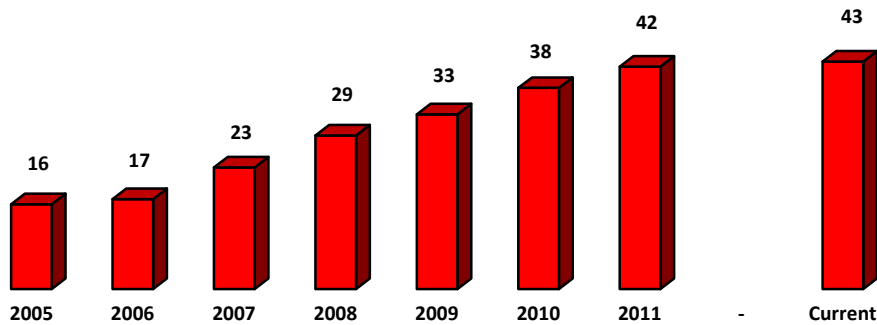
Shares of Conmed continue to trade under low volume, which has protected the stock from some of the drag on valuation in the broader U.S. equity market presented by global credit concerns. Unfortunately, CONM appears to be trapped below the \$3.00 price level where the stock had been trading prior to announcement of a buyout offer in May 2011. We believe the recent entrance into the lucrative Texas market as well as strong sales and earnings comparisons in the first half of 2012 could be sufficient catalysts to propel the stock out of this range. We note that historic trading patterns in the stock suggest a line of price resistance exists at the \$3.80 price level near the failed buyout offer price, presenting a potential impediment to achievement of our \$4.50 price target.

In our view, investors should remain focused on the Company's steady capture of market share and continued strong retention record. Addition of new services such as dental care and the transition to electronic record keeping help solidify client relationships and differentiate the Conmed brand. The revenue run-rate of \$79 million 25% higher than one year ago, representing a top-line growth rate we believe is sustainable based on the low penetration rates of outsourced healthcare services in local detention centers and the Company's consistent contract win rate.

BUSINESS DESCRIPTION

Conmed Healthcare Management stands out in the private correctional services sector with its focus on local detention facilities. Unlike other providers who serve state and federal prison inmates subject to lengthier periods of incarceration, Conmed specializes in the unique health care protocols required in the short-term, transitory environment of local jails and detention centers. The Company has accumulated twenty-six years experience in meeting federal standards for correctional care and claims passage of all accreditation and government agency audits in its history.

Chart I: Contracted Jurisdictions* (end of period)



Certain contracts involve multiple sites.

Sources: Company Reports and Crystal Equity Research Estimates

The Company provides health care services in forty-three county sites in nine states, caring for over 20,000 detainees. Conmed boasts a near perfect client retention rate since the Company's inception in the late 1980s. This high level of customer satisfaction has helped quadruple revenue in the last five years, reaching \$66.8 million in the twelve months ending September 2011. A busy contract pipeline portends a continuation of Conmed's growth trajectory. The Company recently won a new multi-year contract in Galveston, Texas valued at an estimated \$3.5 million in annual revenue. We estimate this contract award increased the Company's annual revenue run rate to \$79 million.

We believe Conmed has reached an inflection point in its organic growth. The Company's appears to have perfected clinical methodologies and operating strategies that qualify the team to take on larger inmate populations and hence larger contracts. In our view, early renewal of the Company's largest contract in Pima County, Arizona and entrance into the Texas market with a new contract in Galveston provides strong reference accounts for future business development efforts. Also encouraging for long-term growth is management's declared interest in expanding beyond the local detention center market with its behavioral health services and the possible provisioning of healthcare services to patient populations at large.

PRODUCTS / SERVICES

Conmed Healthcare Management provides on-site medical and behavioral health care services to municipal and county detention centers. Conmed enters into multi-year contracts with municipal and county agencies to operate onsite health care operations, including physical and mental health screens, completion of inmate physical and mental health assessments, execution on care regimens, maintenance of records and development of quality improvement programs. Each program is tailored to the unique needs and specifications of the client cities and counties.

Conmed Healthcare administers a wide range of on-site health care programs and arranges for or oversees off-site hospitalization and specialty outpatient care, although the exact nature of services to be provided may vary depending on the specific terms of each contract. The Company provides medical care to each inmate upon the inmate's booking into the correctional facility and ends upon the inmate's release. In order to reduce costs and provide better care, emphasis is placed upon early identification of serious injuries or illnesses so that prompt and clinically-effective treatment is commenced as soon as possible.

On-site medical services provided may include physical and mental health screening, which involves the compilation of the inmate's health history and the identification of any current, chronic or acute healthcare needs. After initial screening, services may include regular physical and dental screening and treatment, psychiatric care, OB-GYN screening and care, and diagnostic testing. Necessary medications and treatments are administered by the clinical staff, which is headed by a Health Services Administrator (HSA). Sick call is conducted daily by physicians, nurse practitioners, physicians' assistants and others who are also involved in the delivery of care. The hospitalization and certain specialty outpatient care are performed by third-parties through arrangements with independent doctors and local hospitals.

Table I: Range of Services

• Medical Staffing	• Pharmacy Services	• In-facility Radiology and Laboratory
• Mental Health Services	• Dental Care	• Out-of-facility ER and Hospitalization
• Third-party Administration (TPA)	• Electronic Medical Records (EMR)	• Electronic Medicine Records (eMAR)
• Occupational Medicine/Training	• Pre-employment Drug Testing	• Pre-employment Physicals

Source: Company Reports and Crystal Equity Research

Cost Versus Quality of Care

Just as in society at large, there is an inherent tension between the goal of high-quality health care and the need to minimize costs. Unlike the rest of the population, the corrections health care environment provides opportunities to achieve efficiency. First it is easier to monitor compliance with prescribed medical regimens and treatments. Better compliance with medication and treatment protocols achieves better outcomes, i.e. improved health, which ultimately reduces future health care costs. Second, in the controlled setting of the jail it is possible to solicit participation in care programs that will eventually lead to improved health outcomes and lower cost of care. Through its initial screening and comprehensive assessment, Conmed personnel identify inmates with chronic illness. Those inmates are then enrolled in special clinics for regular, structured treatment that could ultimately lower total cost of care.

One of the ways Conmed management believes the Company is able to control costs even while providing quality care is through frequent interaction and problem solving with their clients. Furthermore, Conmed attempts to control the indifference to cost inherent in the health care system at large. For example, Conmed physicians follow strict company-wide policies that favor generic drug equivalents. Use of generic drugs can reduce prescription expenses by as much as 75% without any degradation in outcome. Savings can also be achieved by what Conmed management terms “thoughtful determinations” on the part of examining physicians that reduce costs even while improving the patient’s health outcome.

Behavioral Healthcare

In November 2008, Conmed acquired Correctional Mental Health Services, a Maryland-based provider of mental health services. The addition of this highly successful program to Conmed’s portfolio of correctional care services has catapulted Conmed to a stronger competitive position. Mental health concerns are top most in local detention centers. We believe the ability to better manage and treat detainees with existing mental health conditions is often the differentiating factor that tips the final decision by local decision makers toward Conmed.

MARKETS / CLIENTS

Incarcerated persons are the only Americans with a constitutional right to health care. These rights harken back to a 1976 U.S. Supreme Court decision in the Texas case, *Estelle v. Gamble*. The judges ruled that deliberate indifference to a prisoner’s serious illness or injury constitutes cruel and unusual punishment under the Eighth Amendment to the U.S. Constitution. Underscoring the legal mandate is the growing awareness that sick inmates released into the community are at greater risk for recidivism. They are also more likely to transmit communicable diseases to the community.

Conmed is targeting the 3,000-plus county jurisdictions in the U.S. with a high valued-added service proposition. The Company’s safety and compliance track record is a major selling point. However, the Company’s strong financial profile is as important to clients as it is to investors. Conmed reported \$15.0 million in cash and no debt on its balance sheet at the end of September 2011. Working capital was \$11.7 million, signaling a service provider with the financial wherewithal to execute on its contractual obligations.

During our field work interviews of Conmed clients we heard descriptions of a high level of professionalism, and detailed management practices, both of which were thought by client to support cost savings and better healthcare outcomes. A quick response to health care issues was also cited by other clients contacted during our survey of randomly selected clients. Conmed management indicates they pursue new customers only after substantial due diligence intended to determine if a strong provider-client relationship is possible. Conmed enters into contracts with clients under the assumption that the relationship will be long-term in nature, extending well beyond the term of the initial contract. Conmed strives to become a partner with the jurisdiction in achieve high quality health care at a reasonable cost. We believe this perspective sets the Company apart from other contenders, both large and small.

Industry Standards and Facility Accreditation

The National Commission on Correctional Health Care (NCCHC) and the American Correctional Association (ACA) set standards for and offer accreditation to health care facilities in correctional settings. The NCCHC, an independent not-for-profit organization initially formed by the American Medical Association, was established to improve the quality of health care in jails, prisons, and juvenile confinement facilities. Conmed’s Health Services Administrators (HSA), who head each of the Company’s contracted county health care facilities, are required to obtain certification as a Certified Correctional Healthcare Practitioner (CCHP) under the auspices of the NCCHC. The ACA, an independent not-for-profit organization, was established to develop uniformity and industry standards for the operation of correctional facilities and the provision of inmate healthcare. Accreditation involves an extensive audit and compliance procedure, and is generally granted for a three-year period. Conmed touts its record of having never failed the audits of the NCCHC, ACA or any state commission.

Exhibit II: Current and Expansion Markets – Local Detention Centers



Source: Company Reports and Crystal Equity Research

Market Penetration; Entrance into New Markets

Although Conmed has reported an increase in the number of unsolicited inquiries related to its services, the Company has an active business development program aimed at detention centers with 500 or higher capacity in terms of “beds.” Conmed representatives are frequent participants at correction professionals’ events, using these venues to stay attuned to corrections issues as well as promote Conmed’s health care services. Conmed representatives are apparently planning to attend at least eight local correction professionals’ events in the current year.

Table II: Correction Professionals' Events

January 15-18, 2012	Florida Sheriffs Association Mid-Winter Conference	Jacksonville, FL
February 8-10, 2012	Tennessee Sheriffs' Association Training and Vendor Expo	Nashville, TN
April 25-26, 2012	Virginia Sheriffs' Institute Spring Conference	Newport News, VA
May 14-18, 2012	Texas Jail Association Annual Conference	Austin, TX
May 21-24, 2012	Washington Association of Sheriffs & Police Chiefs	Kennewick, WA
June 3-5, 2012	Maryland Correctional Administrators Assn. (MCAA) Conference	Ocean City, MD
June 12-15, 2012	Texas Chief Deputies Association Annual Training Conference	Kerrville, TX
September 9-11, 2012	Virginia Sheriff's Association	Virginia Beach, VA

Source: Conmed Healthcare Management Corporate Website

In addition to adding to the top-line, recent new contracts have given Conmed an initial presence in three new geographic markets. While a small contract valued at \$360,000 per year in terms of revenue, the relationship in Haywood, Tennessee represents Conmed's entrance into the Southeastern market. In July 2011, Conmed took over medical healthcare in the Ocean City, New Jersey detention facility. The five-year contract is valued at \$17.1 million and encompasses the adoption and installation of electronic record keeping. Likewise a contract valued at a total of \$16.2 million in Galveston, Texas is the first win of the year 2012, and provides a long coveted initial foothold in the large Texas market.

We believe that the Company's expansion into new geographies is likely the most significant driver of future bidding and contracting activity. The Company now has a presence in four key regions - Northwest, Southwest, Southcentral and Mid-Atlantic. Since many local governments make decisions on service providers and vendors based on referrals or references from near-by jurisdictions, each new contracted facility becomes a showcase for courting new customers.

Following the Company's hub and spoke approach to market penetration as well as operational management, we expect the Ocean City, Haywood and Galveston relationships to provide the Conmed with strong reference points for additional prospects in all three regions. The collaborative nature of law enforcement puts local officials in frequent contact and fosters a strong reliance on referrals and recommendations for solutions to common issues. Since detainee healthcare is one of the largest budget items for county and municipal law enforcement, we believe it is a frequent point of discussion. Accordingly, each client serves as a vital referral source for additional business in its market.

The City of Alexandria is one of the most recent communities in Maryland to entrust Conmed with jail detainee healthcare. At \$2.0 million per year in estimated annual revenue, the contract is among the smallest relationships in Conmed's portfolio. However, the initial five-year term and two options of two years each could extend the contract to nine years, providing a view on the level of confidence that clients have in Conmed to perform over the long-term. Conmed now provides healthcare services in the majority of local jurisdictions in Maryland, its home state and the first market in which Conmed offered services. St. Mary's County in Maryland, which is among the Company's first clients in its operating history, recently expanded the scope of services when renewing the Conmed contract.

COMPETITION

The market for outsourced correctional healthcare is highly fragmented and populated by a diverse group of providers with unique service offerings. Competition is primarily on the basis of price, but quality of care and reputation for excellent service are also factors. In addition to the national, regional and local healthcare providers listed in Table III on page 9 of this report, Conmed also competes with a local hospitals and physician groups which provide care in local jails.

Several of the larger prison management companies, such as The GEO Group, Inc. (GEO: NYSE) also provide healthcare services. Recent consolidation in the sector has led to a concentration of interest on the larger prison facilities. In particular Corizon, Inc. (private), created in June 2011 through the merger of Prison Health Services, Inc. and Correctional Medical Services, Inc., now claims service to 400 correctional facilities in the U.S. spread across thirty-one states. We believe Corizon participates less frequently in competitive bids for local detention center contracts as it attempts to create faster growth through larger contracts. We believe Wexford Health Sources, Inc., based in Pennsylvania, is the second largest provider of correctional healthcare services. Wexford's service offering is similar in scope to that of Conmed. Advanced Correctional Healthcare, based in Peoria, Illinois lists 200 clients in 17 states and claims a 97% client retention rate.

Conmed also competes with other regional service providers. Naphcare, Inc. provides services in seventy-one facilities, of which ten are local detention facilities and the balance is composed of state and federal prisons. Naphcare is differentiated by the provision of dialysis units for correctional facilities. Armor Correctional Health Services claim an undisclosed number of contracts in Georgia, Florida, New York, Oklahoma and Virginia, and claims service to more inmates in its home state of Florida than any other company. We believe PrimeCare Medical based in Pennsylvania is approximately the same size as Conmed in terms of inmate served. PrimeCare claims services to over 18,000 inmates and a service territory in the northeastern U.S. Correctional Healthcare Management based in Colorado provides services in seventy-three prison and jail facilities in ten states in the West and Southwest regions.

Unlike most of its competitors that vie for a berth as the low-cost provider, Conmed has sought to distinguish itself as what might be called the "low-incident" provider. Through our field work we were able to corroborate that at least some of Conmed's clients selected a provider based on quality-of-care factors such as reduced exposure to litigation and ability to successfully apply for accreditation. Clients are also interested in Conmed's track record in reducing costs through an expanded array of in-facility health and dental care and the Company's ability to implement an electronic health record system.

The Company's evolving product and service offering also supports our view that the stock is undervalued against the competitive rigor of its operation. During recent earnings conferences calls management has outlined an on-going plan to invest in new technologies and innovations that would create efficiencies in operations and enhance quality of services while reducing costs. For example, Conmed is implementing new disease management procedures for diabetic inmates that should result in the reduction of debilitating and costly healthcare problems associated with this chronic disease. We believe these efforts further distinguish the Company from competition and enhance the ability of the Company to win and retain new customers.

Table III: Competition

Company Name	Scope	Operations	Facilities
Corizon, Inc.	National	Prison Healthcare Services	400
Wexford Health Sources, Inc.	National	Prison and Jail Healthcare Services	260
Advanced Correctional Healthcare	National	Prison and Jail Healthcare	200
The Geo Group, Inc.	National	Prison Management, Healthcare Services	116
Naphcare, Inc.	Regional	Prison and Jail Healthcare Services	71
Correctional Healthcare Management	Regional	Jail Healthcare	73
Avalon Correctional Services, Inc.	Regional	Prison Management, Healthcare	10
Armor Correctional Health Services	Regional	Prison and Jail Healthcare	na
PrimeCare Medical, Inc.	Regional	Jail Healthcare	na
Correct Care Solutions	Regional	Jail Healthcare	na
CorrectHealth, LLC	Local	Jail Healthcare, Georgia and Louisiana	26
California Forensic Medical Group, Inc.	Local	Prison and Jail Healthcare, California	25

Source: Crystal Equity Research estimates

LEADERSHIP

At the foundation of Conmed's track record for excellent service and high quality health care, is a team of experienced executive officers and senior division leaders. We estimate that collectively Conmed's management team commands over a 100 years direct correctional healthcare experience. Key members of the group include the following:

Dr. Richard Turner, who is the Company's Chief Executive Officer, has a thirty year history of executive leadership in the medical industry. Turner was recently elected chairman of the board. Prior to joining the Company 2006, Turner held executive leadership positions in the medical industry, including top positions at Eyetel Imaging, BEI Medical, and the Healthcare Group for Cooper Companies. In part through Turner's leadership the Company's attention to detail and high standards for quality of service has come to define Conmed's corporate culture.

Conmed's mental and behavioral health offering is headed by Dr. Stephen Goldberg, who joined Conmed in 2008 when the Company acquired Correctional Mental Health Services (CMHS), a service provider Goldberg founded six years earlier. He is a board certified psychiatrist with an additional qualification in forensic psychiatry. Golderberg has a distinguished background with teaching appointments at the several major universities. Dr. Goldberg also brings to Conmed first-hand knowledge of mental health care in correctional settings. He was previously a staff psychiatrist and/or director at the Maryland's maximum security hospital, Baltimore County Detention Center, and with Prison Health Services, Inc., a provider of prison management services.

The Company's Chief Medical Officer for Somatic Health is Dr. Donald Rhodes, MD, who has held a variety of increasingly responsible positions with Conmed since 1998. Rhodes assumed the position of CMO in April 2011. He earned a medical degree from the University of Pittsburgh School of Medicine. Dr. Rhodes has practiced medicine as a medical officer and flight surgeon for the U.S. Navy and in private, civilian practice. Dr. Rhodes is board certified in family practice medicine.

Dr. Johannes Dalmasy is the Chief Medical Officer for Mental and Behavioral Health. Dr. Dalmasy is a board certified psychiatrist and was educated in the field at the Pontificia Universidad Católica Madre Y Maestra in the Dominican Republic and at University of Baltimore in Maryland. He is also a clinical assistant professor of psychiatry at the University of Maryland School of Medicine. Dr. Dalmasy was previously with Correctional Mental Health Services that was acquired by Conmed in 2008.

Management teams in fast growing companies are often challenged to scale up with sufficient capacity to meet customer requirements. We believe management capacity is critical in an operation like Conmed where the company's reputation for highly responsive service has been key element in winning and retaining clients. Conmed had added to its management team over the years, including positions in quality assurance and standards, nursing program services, dental services, and mental and behavioral health service operations. In our view, the additional positions have led to a significantly deeper bench, thereby mitigating the risk of falling short on client expectations.

The most recent new position is vice president of operations, Lauren Kroger, who was appointed to the new post in early January 2012. She is a licensed registered nurse and earned a bachelor of science degree in nursing from the University of Southwestern Louisiana. Most recently Kroger was Kroger was a senior member of the health services team for The GEO Group (GEO: NYSE), provider of prison management and correctional health services. Kroger brings to Conmed extensive experience in accreditation and standards setting for correctional healthcare, an area where Conmed has excelled and a key to the Company's competitive position.

Two other positions are pivotal to the efficient management of the Company. Thomas Fry joined the Company in 2006 as chief financial officer. Fry brings to Conmed extensive experience in senior financial positions in the healthcare field, most recently as chief financial officer of Vasomedical, Inc. Fry has been front and center in the successful renewal of Conmed's existing contracts. Along with CEO Richard Turner, the job of identifying and pursuing new clients is held by Larry Doll, vice president of strategic development. Doll previously held a series of increasingly responsible positions in sales and marketing at various healthcare and medical device companies, including EyeTel Imaging and BEI Medical Systems.

OWNERSHIP

Insiders hold 2.6 million shares of common stock and 1.8 million options. John Pappajohn, one of the Company's independent directors holds the majority with 2.5 million shares and 40,000 options. CEO Richard Turner owns the second largest insider position with 10,000 shares of common stock and 1.2 million options. Insider holdings of common stock represent 19.8% of the total shares outstanding. Assuming exercise of all options, insiders would hold 30.2% of the 14.9 million then outstanding common shares.

There are three significant holders listed in the 2011 proxy, which together hold 3.9 million shares of common stock. Two of the 5% owners also hold a total of 758,237 warrants and options. These shares are thought to trade very infrequently, if at all, representing a significant reduction in the constructive float for Conmed's stock to approximately 6.6 million shares.

We believe the closely held nature of Conmed's common stock may be one factor impacting trading volume in CONM. Despite a strong contract record, achievement of profitability and positive operating cash flow, and a strong balance sheet, average daily volume remains sluggish near 72,000 shares per day. That strength has earned the Company a loyal following of significant holders and professionally managed funds which may not trade the stock with any frequency.

Table IV: Insider and Significant Ownership

Name	Position	Years	Stock	Derivatives	Total	Experience
R. Turner, PhD.	CEO, Chairman	5	10,000	1,225,000	1,235,000	Exec. mngmnt; health care
J. Pappajohn	Director - I, 1, 2	18	2,539,508	40,000	2,579,508	Finance; venture capital
E. Berger	Director - I, 1, 2	5	15,000	40,000	55,000	Exec. mngmnt; health care
J. Collaton	Director - I, 1	5	-0-	40,000	40,000	Exec. mngmnt; health care
C. Crocker	Director - I, 1, 2	2	-0-	40,000	40,000	Venture capital
J. Runge	Director - I	1	-0-	-0-	-0-	Consulting, health care
T. Fry	Chief Financial Officer	5	5,000	200,000	205,000	Finance; accounting
S. Goldberg	EVP, Pres. CMHS	4	79,119	190,000	269,119	Mental health care mngmnt
Officers as a Group			2,648,627	1,815,000	4,463,627	
5% Holders			3,929,601	758,237	4,687,838	

I - Independent Director

1 - Audit Committee

2 - Compensation Committee

Source: Company Reports and Crystal Equity Research Estimates

OWNERSHIP

Insiders hold 2.6 million shares of common stock and 1.8 million options. John Pappajohn, one of the Company's independent directors holds the majority with 2.5 million shares and 40,000 options. CEO Richard Turner owns the second largest insider position with 10,000 shares of common stock and 1.2 million options. Insider holdings of common stock represent 19.8% of the total shares outstanding. Assuming the exercise of all their options, insiders would hold 30.2% of the 14.9 million then outstanding common shares.

There are three significant holders listed in the 2011 proxy, which together hold 3.9 million shares of common stock. Two of the 5% owners also hold a total of 758,237 warrants and options. These shares are thought to trade very infrequently if at all, representing a significant reduction in the constructive float for Conmed's stock to approximately 6.6 million shares.

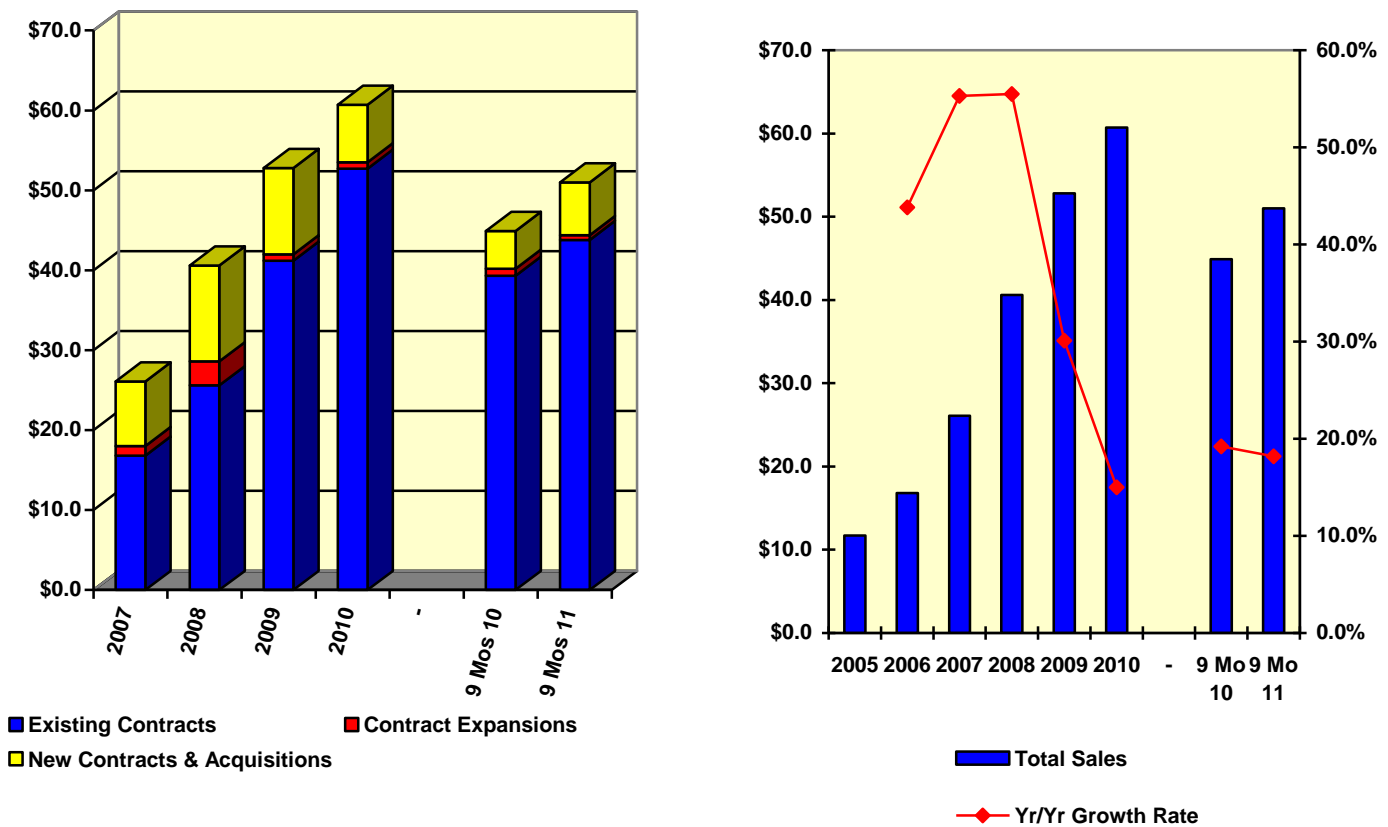
We believe the closely held nature of Conmed’s common stock may be one factor impacting trading volume in CONM. The despite a strong record of contract awards, achievement of profitability, positive operating cash flow, and a strong balance sheet, average daily volume remains sluggish near 72,000 shares per day. That strength has earned the Company considerable loyalty among significant holders and professionally managed funds, which consequently may not trade the stock with any frequency.

FINANCIAL SUMMARY

Revenue Growth. Conmed recorded \$51.0 million in total sales in the first nine months of 2011, representing a 13.6% increase over the same period in the prior year. This growth rate compares to 15.0% top-line growth in calendar and fiscal year 2010 over 2009. The Company had experienced a 30.0% surge in revenue in 2009, largely on the acquisition of Correctional Mental Health Services in November 2008.

New contracts have been a significant driver of growth. In the calendar and fiscal year 2010, new contracts contributed \$7.2 million or 11.9% of total sales in the period. This represented 91% of the growth in 2010 over the prior year. Contract extensions and increases in compensation in existing contracts provided \$1.3 million in increased revenue in 2010, representing the 9% balance in total growth. In the most recent nine month period ending September 2011, new contracts accounted for \$6.6 million of total revenue, mitigating a \$1.0 million reduction in revenue from existing contracts that resulted from lower Average Detainee Population (ADP) and revised compensations rates in certain of the Company’s largest relationships. Contract extensions contributed an incremental \$0.6 million to the top-line.

Chart II: Organic and Acquired Growth



Source: Company Reports and Crystal Equity Research Estimates

Conmed’s revenue derives exclusively from long-term contracts with local governments. In 2010, two contracts accounted for \$15.7 million or 25.9% of total sales in the year. This compares to a 29.7% contribution to total sales from the same two contracts in 2009. We expect the level of concentration in revenue to decline again in calendar year 2011, as new contracts were added to the mix and total sales increased.

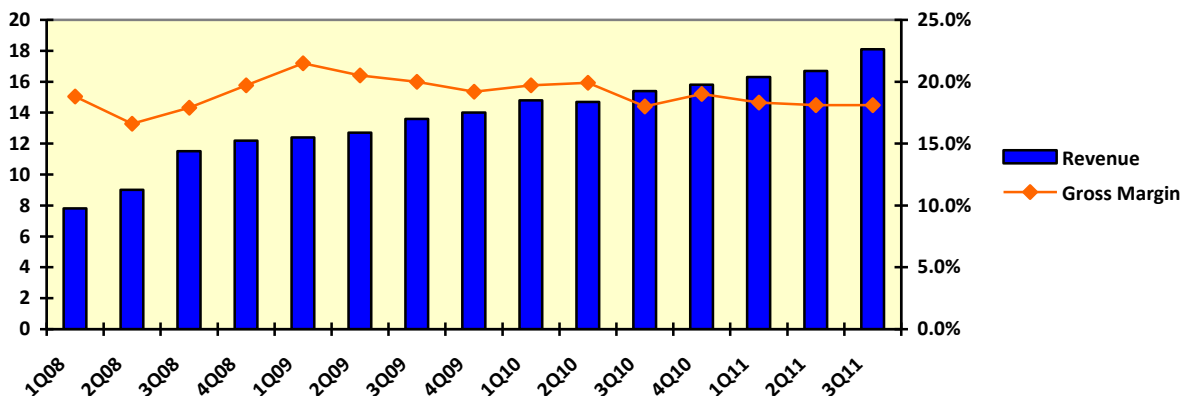
Profitability. Gross profit margins are susceptible to variance due to the unpredictability of relatively higher costs associated with out-of-facility treatment, specifically hospitalization of detainees suffering from conditions that cannot be treated in the jail environment. Conmed has been successful in developing medical competencies and capacities that have reduced the need for out-of-facility treatment. The Company has also taken advantage of state sponsored medical insurance programs for qualifying detainees. Nonetheless, higher-cost hospitalization will remain a factor impacting profit margins. In the last five years, the profit margin ranged from a low of 17.3% in 2006 to a high of 20.2% in 2008. We believe the year 2006 was an exceptional period in which patient populations served were unusually free of acute medical care needs.

On a quarterly basis, gross profit margins have trended generally downward since peaking at 21.5% in the first quarter 2009. We believe the record profit in the period was achieved on an unusual shift in facility population mix in which few detainees required out-of-facility care. The downward trend is largely the result of increasing attention to cost containment by clients under difficult economic conditions and reduced local tax collections.

Some investors might note that Conmed’s profit margins are significantly lower than those of Corrections Corporation of American (CXW: NYSE) and The GEO Group, Inc. (GEO: NYSE), the only providers of correctional services with publicly disclosed financial results. We note that while both of these companies provide correctional health care, a significant portion of their respective revenue and profit mix is from the management of large prison facilities. Such services garner considerably higher profit margins than the health care component alone. Avalon Correctional Services, Inc. (CITY: OTC/PK), another public provider of correctional healthcare, no longer publicly reports financial results.

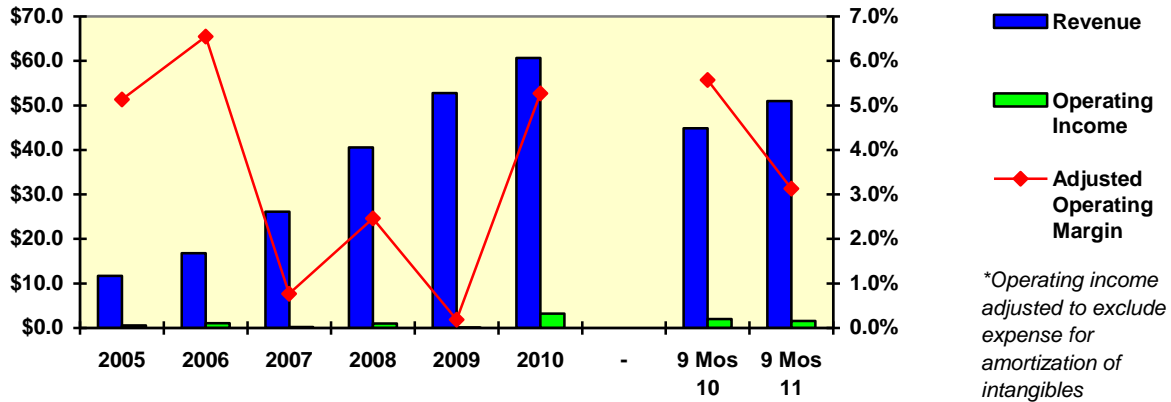
While the provision of quality health care may seem at odds with increasing profits, the Company has managed the dual goals with credible success. One of the keys has been a selective approach to client prospecting, wherein the Company configures its proposals and contracts to ensure quality care at reasonable cost. Consequently, the Company has passed over some smaller jurisdictions and recently chose not to rebid when its contract with Creek County, Oklahoma at the renewal date in July 2011. The Creek County contract was originally won in June 2009 and provided care for 300-plus detainees.

Chart III: Historic Quarterly Revenue and Gross Profit Margins



Source: Company Reports and Crystal Equity Research Estimates

Chart IV: Historic Sales, Adjusted Operating Income* and Adjusted Operating Margin



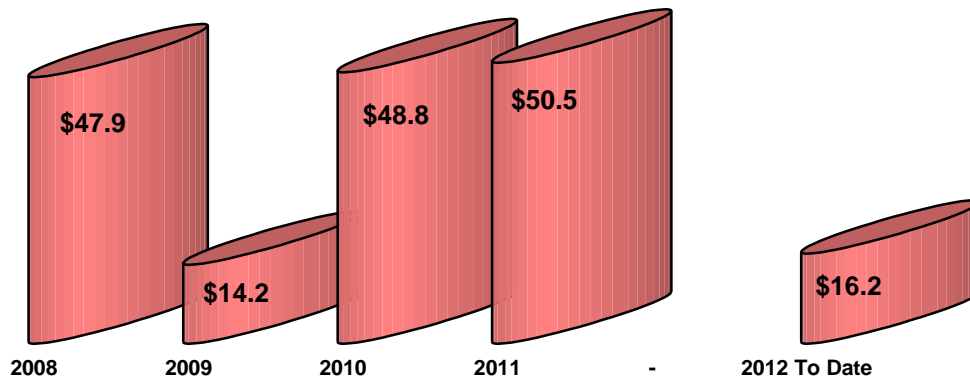
Source: Company Reports and Crystal Equity Research Estimates

Operating Income. Excluding amortization of intangible assets created in the merger of privately-held Conmed Healthcare with its public company parent and subsequent acquisitions in 2008, Conmed operations have been consistently profitable. Adjusted operating income in calendar and fiscal year 2010, totaled \$3.2 million on \$60.7 million in total revenue, representing an adjusted operating profit margin of 5.2%. Operating profit margins have varied considerably year-to-year, ranging from 0.1% in 2009 to 6.5% in 2006. Operating profits were under pressure in the first nine months of 2011, due in part to higher administrative expenses. The Company has invested heavily to build Conmed's operational backbone, adding to the management team and investing in operating systems and platforms. Careful management of costs and expenses has at least partially preserved adjusted profit margins near 3.1% in the first nine months of 2011. This compares to 4.5% in the same period of the previous year.

Cash Flow from Operations. Another view on Conmed's ability to generate returns for shareholders is provided by cash flow from operations. In the calendar and fiscal year 2010, Conmed was successful in converting 4.4% of sales to cash or \$2.7 million on \$60.7 million in total revenue. This compares to 8.2% in the previous year when cash flow from operations was \$4.3 million on \$52.8 million in total revenue. The cash conversion rate further declined in the first nine months of 2011, to 3.4%. Cash conversion was 5.0% of total sales in the same period of the previous year. We believe the decline in the rate of cash generation is due largely to profit margin compression.

Balance Sheet. Consistent cash generation is one of the reasons the Conmed balance sheet is free of debt and maintains ample working capital reserves. Furthermore, the capital requirement for the augmentation of capacity is nominal. Consequently, cash balances have risen steadily. Conmed reported \$15.0 million in cash at the end of September 2011. We expect a higher cash balance to be reported at the end of December 2011, following the payment of a \$2.3 million break-up fee by the Ayelet Group, which backed out of an agreement to acquire Conmed for \$3.76 per share.

Shareholders' equity increased to \$17.0 million at the end of September 2011 and assets totaled \$27.1 million. Return on equity and return on assets were 4.1% and 8.0%, respectively, based on reported net income of \$691,660 in the twelve months ending September 2011.

Chart V: Annual New Contract Value Added - dollars in millions

Source: Company Reports and Crystal Equity Research Estimates

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EARNINGS MODEL

Estimated Revenue. We believe that the Company's expansion into new geographies is likely the most significant driver of future bidding and contracting activity. The Company now has a presence in five key regions - Northwest, Southwest, Southcentral, Northeast and Mid-Atlantic. Since many local governments make decisions on service providers and vendors based on referrals or references from near-by jurisdictions, each new contracted facility becomes a showcase for courting new customers. Management describes receiving an increasing number of unsolicited inquiries related to health care services, some of which stemmed from referrals by professional contacts in jurisdictions Conmed serves.

The Company has a strong track record of contract awards and at historic win rates it is not unreasonable to assume that at least two or three more contracts could be awarded in the current year. Such contract awards typically impact the immediate quarter and lead to a jump in revenue in subsequent periods. The Company's strategy of dual organic and acquired growth produced 108.2% growth in sales in 2010, due to a net reduction of approximately \$0.4 million in revenue from existing contracts compared to the prior year. In the first nine months of 2011, sales grew new contracts contributed the majority of the 13.6% year-over-year growth in total revenue in the period. We believe it is reasonable to expect the Company to continue producing double digit growth in revenue for the next couple of years.

We are also encouraged by the description of the Company's sales and marketing strategies by CEO Richard Turner. Instead of relying exclusively on the formal proposal request process, which is at times a highly competitive and costly process, Conmed representatives have embarked on a more proactive strategy to negotiate directly with jurisdictions in crafting healthcare solutions. The contact award rate has not been raised above the already exemplary win-rate in the range of 25% to 30%. However, we expect the nuanced business development strategy to be particularly effective in those geographies where the Company already has planted a flag, such as in Arizona, Texas, Oregon or New Jersey.

We estimate that approximately one-third of Conmed's current contracts may be subject to renewal in the current year. We believe most of the renewal dates are concentrated in the first six months of the calendar year. For competitive reasons, Conmed does not publish or comment on upcoming contract renewal dates. Historically Conmed has successfully renewed every contract, not infrequently with expanded services and increases in compensation rates. In our view, there is no reason to expect any change in the Company's renewals. That said, we do not anticipate significant increases in contract size as local governments remain under significant budgetary constraint due to reduced tax collections.

Table V: Historic New Contract Awards (dollars in millions)

Date	Jurisdiction	State	Services*	Contract Term*	Annual Revenue	Total Value
1/12	Galveston County	TX	Full Service	4.6 yrs.	\$3.8	\$16.2
8/11	Newport News	VA	Medical and Behavioral	10 yrs.	\$1.4	\$13.6
7/11	Worcester County	MA	Medical and Behavioral	1 yr.	\$0.7	\$ 0.7
7/11	Ocean County	NJ	Full Service, Electronic Records	5 yrs.	\$3.4	\$17.1
4/11	Haywood County	TN	Full Service	3 yrs.	\$0.4	\$ 1.1
3/11	City of Alexandria	VA	Medical, Electronic Records	9 yrs.	\$2.0	\$18.0
10/10	Virginia Beach	VA	Medical	5 yrs.	\$3.5	\$17.5
8/10	City of Roanoke	VA	Medical, Electronic Records	5 yrs.	\$1.8	\$ 9.1
6/10	Pima Juvenile Detention	AZ	Pharmacy, Behavioral Health	4.4 yrs.	\$1.2	\$ 5.2
3/10	Clark County	WA	Medical	6 yrs.	\$2.6	\$16.0
3/10	Garret County	MA	Medical and Behavioral	4 yrs.	\$0.2	\$ 1.0
6/09	Washington County	MD	Medical and Behavioral	5 yrs.	\$1.0	\$ 5.0
6/09	Creek County	OK	Medical and Behavioral	5 yrs.	\$0.5	\$ 2.2
6/09	Coos County	OR	Medical	5 yrs.	\$0.4	\$ 2.0
1/09	Western VA Regional	VA	Medical and Behavioral	3 yrs.	\$1.7	\$ 5.0
8/08	Pima County	AZ	Medical and Behavioral	4.5 yrs.	\$9.7	\$43.7
7/08	Caroline County	MD	Medical	5 yrs.	\$0.4	\$ 1.8
5/08	Douglas County	OR	Medical and Behavioral	3 yrs.	\$0.8	\$ 2.4

*Full service contracts include medical, dental, 24-hour clinical, mental health, administrative staffing, pharmacy, lab and x-ray, management of emergency room admissions, hospital and other out-of-facility care services.

Source: Company Reports and Crystal Equity Research Estimates

We believe these successes along with a full business pipeline supports our \$85.0 million sales estimate for the year 2012. If achieved, this revenue target represents 27% growth over sales in the twelve months ending September 2011. The estimate is admittedly aggressive, but is supported by an estimated \$79.0 million revenue run rate achieved with the recent contract award in Galveston, Texas.

Estimated Profit Margins. The Company is targeting margins in a range of 18% to 20%, driven largely by the ability of the Company to maximize in-facility care across Conmed's various contracts as well as pricing negotiations in the renewal of existing contracts. Our assumptions for 4Q11 and the year 2012 reflect the low end of the range. We have taken a conservative view on margins given the considerable variance in out-of-facility medical expenses experienced over the last year. We also expect the Company to experience continued pricing pressure for the foreseeable future as its clients work through budgetary constraints arising from higher costs and lower tax collections. The installation of electronic record keeping may serve as a source of some cost savings, a portion of which could accrue to Conmed.

At the operating level, we have assumed expense rates in-line with recent experience. We do not anticipate any exceptional spending over the next year. A modest amount of operating leverage may accrue as the Company builds its top-line and makes more effective use of fixed administrative functions and personnel. In 4Q11 we have estimated General and Administrative Expenses totaling \$2.4 million, bringing total G&A to \$10.0 million or 14.3% of total sales. This compares to 13.4% in the year 2009 and

15.3% in the first nine months of 2011. We anticipate some operating leverage on the estimated higher sales level in the year 2012, bringing G&A to 12% of total sales or \$10.2 million.

Shares Outstanding. At the beginning of November 2011, Conmed reported 13.1 million shares outstanding. Subsequent to the unsuccessful sale of the Company to a private investor group, the board of directors approved a plan to repurchase up to \$5.0 million of the Company's common stock. At the current share price the Company could potentially repurchase as many as 1.8 million shares. However, the presence of the Company buying up shares in the open market could drive the stock price upward, thereby reducing the total volume repurchased.

Our earnings model reflects a reduction in the number of shares outstanding as a result of full execution of the stock repurchase plan over the next two years. We anticipate that the repurchase may take some months to accomplish due to regulator restrictions on corporate stock buybacks, the limited volume and the number of weeks the Company enters so-called quiet periods surrounding the disclosure of earnings and other material information. Share repurchases are expected to be partially off-set by the issuance of new shares as employees and other shareholders exercise options and warrants. We estimate the Company has approximately 1.1 million warrants outstanding at an average exercise price of \$0.98 per share and 1.7 million options outstanding at an average exercise price of \$2.17 per share. Since most of the Company's outstanding derivatives are in-the-money at even the current depressed stock price, we believe it is more likely than not that the various options and warrants will be exercised when possible.

Our model reflects an estimated average purchase price of \$3.60 per share and a reduction in shares outstanding by 1.4 million shares over the next two years. We have estimated fully diluted shares of common stock outstanding of 13.5 million and 14.0 million in fiscal years 2012 and 2013, respectively.

Estimated Cash Flow from Operations. Our estimate for cash flow generation by operations (CFO) is \$2.7 million and \$4.9 million in the years 2011 and 2012, respectively. These estimates do not reflect two material events. Our CFO estimates do not include the payment of the \$2.3 million breakup fee from Ayelet Investments that came due to the Conmed following the November 2011 withdrawal of Ayelet from its plan to buy out Conmed shareholders. Additionally, our CFO estimates do not include the use of cash for repurchases of the company's common stock, which was approved by the board of directors in December 2011.

Upside Potential. A long-standing element of Conmed's strategic growth plan has been the acquisition of similar operations in select regions around the country. The Company entered the Northwestern region through the 2008 acquisition of Emergency Medicine Documentation Consultants (EMDC), a provider of medical services in northwest Oregon. In the same year Conmed acquired a specialty service provider, Correctional Mental Health Services (CMHS) based in Maryland. The more comprehensive suite of health and behavioral care services that resulted from the acquisition of CMHS has proven to be a strong catalyst for a number of subsequent contract expansions and new contract awards.

While management has not ruled out the potential for additional deals in the future, we believe acquisitions are a lower priority than in previously years. The Company has been successful in penetrating new markets through direct competition. Likewise, the service offering has been expanded without the incremental investment needed to acquire and integrate existing operations. Furthermore, we believe management has not found sufficiently compelling valuations among potential targets to make an aggressive pursuit.

That said, now that the Company is no longer in any discussion to be acquired itself, we believe management may find more time and incentive to consider possible acquisitions. Current cash resources near \$15.0 million are more than adequate to support working capital requirements, the planned common stock repurchase as well as an acquisition. Should a deal come along, it would represent upside to our revenue and earnings estimates.

Table VI: Conmed Healthcare Services Contracts by Jurisdiction

Client	Inception	Possible Renewal
1. City of Alexandria, VA	2011	2020
2. Allegany County, MD	1988, 2003	NA
3. Baltimore County, MD	2007	NA
4. Calvert County, MD	1990	NA
5. Caroline County, MD	2009	2013
6. Carroll County, MD	1998	NA
7. Cecil County, MD	2003	NA
8. Charles County, MD	1989	NA
9. City of Chesapeake, VA	2008	NA
10. Clark County, WA (3 sites)	2010	2016
11. Coos County, OR	2009	NA
12. Dorchester County, MD	1983	NA
13. Douglas County, OR (6 sites)	2008	2014
14. Frederick County, MD	2001	NA
15. Harford County, MD	2002	NA
16. Hayward County, TN	2011	2014
17. Henrico County, VA (2 sites)	2007	NA
18. Howard County, MD	2005	NA
19. Galveston County, TX	2012	2014
20. Garret County, MD	2010	2014
21. Jackson County, VA (3 sites)	2007	NA
22. Kent County, MD	1983	NA
23. Kitsap, OR	2007	2013
24. Loudoun County, VA	2005	NA
25. Newport News, VA	2011	2021
26. Ocean City, NJ	2011	2016
27. Pima County, AZ	2008	2014
28. Pima County Juvenile Detention Center	2010	2014
29. Queen Anne's County, MD	1983	NA
30. City of Roanoke, VA	2010	2013
31. St. Mary's County, MD	1983, 1996	2014
32. Sedgwick County, KS	2005	NA
33. Somerset County, MD	2000	NA
34. Talbot County, MD	1984	NA
35. Virginia Beach, VA	2010	2015
36. Washington County Detention Center, MD	2009	2014
37. Western VA Regional Jail Authority (3 counties, 1 city)	2009	NA
38. Wicomico County, MD	2007	NA
39. Worcester Count, MD	2011	NA
40. Yakima County, WA	2006	NA

**Possible renewal dates are estimated by Crystal Equity Research. Renewal dates are designated as Not Available (NA), unless a certain renewal date can be determined. Some of these relationships may have been changed in recent negotiations, which may have extended the next renewal to a later date.*

Source: Crystal Equity Research Estimates

Additional information is available upon request.

Table VII: Historic and Projected Balances

Dollars in Thousands	2007	2008	2009	2010	2011E
CURRENT ASSETS					
Cash & cash equivalents	7,137	7,472	11,056	13,270	14,620
Accounts receivable, net	1,622	2,376	2,278	2,699	2,878
Other current assets	215	292	967	1,303	1,303
Total current assets	8,974	10,140	14,300	17,272	18,801
LONG-TERM ASSETS					
Property, plant & equipment, net	213	529	606	686	686
Deferred taxes	90	645	1,381	1,321	1,321
Intangible assets, net	3,448	2,826	1,421	683	462
Goodwill	4,852	6,254	6,264	6,264	6,264
Other long-term assets	59	15	12	56	56
TOTAL ASSETS	17,636	20,409	23,984	26,282	27,590
CURRENT LIABILITIES					
Accounts payable	837	1,080	1,489	1,813	1,720
Accrued liabilities	1,569	3,643	4,698	4,988	5,161
Deferred revenue	353	562	1,019	599	1,051
Current portion of long-term debt	8	170	-	-	-
Total current liabilities	2,767	5,455	7,206	7,400	7,932
LONG-TERM LIABILITIES					
Long-term debt	5	35	-	-	-
Other long-term liabilities	-	-	1,300	693	693
STOCKHOLDER'S EQUITY					
Convertible preferred stock					
Common stock	1	1	1	1	1
Additional paid-in capital	35,902	36,876	37,830	38,991	38,991
Retained earnings (deficit)	(21,039)	(21,958)	(22,353)	(20,804)	(20,026)
Total stockholders' equity	14,864	14,920	15,479	18,189	18,966
TOTAL LIABILITIES AND EQUITY	17,636	20,409	23,984	26,282	27,590

Source: Crystal Equity Research Estimates

Table VIII: Historical and Projected Sales and Expenses

Dollars in Thousands	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11E	2011E	2012E
Total revenue	40,550	52,784	14,752	14,738	15,391	15,773	60,654	16,311	16,657	18,068	19,000	70,036	85,000
Direct costs													
Salaries, wages & benefits	21,413	29,871	8,215	8,491	8,730	9,112	34,548	9,296	9,454	10,245	10,830	39,825	48,450
Medical expenses	10,378	10,285	3,140	2,872	3,290	2,981	12,283	3,420	3,472	3,842	3,990	14,724	17,850
Other operating expenses	1,334	1,940	495	447	599	682	2,223	607	713	715	760	2,795	3,400
Direct costs	33,125	42,096	11,850	11,810	12,619	12,775	49,054	13,323	13,639	14,802	15,580	57,344	69,700
Gross profit	7,425	10,688	2,902	2,928	2,772	2,998	11,600	2,988	3,018	3,266	3,420	12,692	15,300
Operating expenses:													
General & administrative	6,359	7,721	2,003	1,987	2,076	2,054	8,120	2,028	2,831	2,757	2,375	9,991	10,200
Depreciation & amortization	2,132	1,970	320	280	215	212	1,027	172	160	137	200	669	600
Total operating expenses	8,491	9,691	2,323	2,267	2,291	2,266	9,147	2,200	2,991	2,894	2,575	10,660	10,800
Operating income (loss)	(1,066)	997	579	661	481	732	2,453	788	27	372	845	2,032	4,500
Other income (expense)													
Interest income	154	80	18	27	27	29	101	29	24	24	25	102	25
Interest expense	(7)	(8)	-	-	-	-	-	-	-	-	-	-	-
Other, net	-	(1,209)	(43)	(3)	406	(35)	325	(130)	(226)	(80)	-	(436)	-
Total other inc (exp)	148	(1,137)	(25)	24	433	(6)	426	(101)	(202)	(56)	25	(334)	25
Income (loss) before taxes	(919)	(140)	554	685	914	726	2,879	687	(175)	316	870	1,698	4,525
Provision for taxes (benefit)	-	(113)	270	343	367	350	1,330	293	(36)	255	409	921	2,036
Net income (loss)	(919)	(27)	284	342	547	376	1,549	394	(139)	61	461	777	2,489
Net EPS (loss)	\$ (0.08)	\$ (0.00)	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.03	\$ 0.11	\$ 0.03	\$ (0.01)	\$ 0.00	\$ 0.03	\$ 0.06	\$ 0.18
Weighted shares out, diluted	12,090	12,566	14,206	14,280	12,632	14,284	13,851	14,348	12,942	14,655	14,000	13,986	13,500

Source: Company Reports and Crystal Equity Research Estimates

Table IX: Selected Measures of Historical and Projected Sales and Expenses

Dollars in Thousands	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11E	2011E	2012E
Total revenue	40,550	52,784	14,752	14,738	15,391	15,773	60,654	16,311	16,657	18,068	19,000	70,036	85,000
Gross profit	7,425	10,688	2,902	2,928	2,772	2,998	11,600	2,988	3,018	3,266	3,420	12,692	15,300
Operating income (loss)	(1,066)	997	579	661	481	732	2,453	788	27	372	845	2,032	4,500
Net income (loss)	(919)	(27)	284	342	547	376	1,549	394	(139)	61	461	777	2,489
Net EPS (loss)	\$ (0.08)	\$ (0.00)	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.03	\$ 0.11	\$ 0.03	\$ (0.01)	\$ 0.00	\$ 0.03	\$ 0.06	\$ 0.18
Weighted shares out, diluted	12,090	12,566	14,206	14,280	12,632	14,284	13,851	14,348	12,942	14,655	14,000	13,986	13,500
SELECTED MEASURES:													
Sales growth, yr/yr	55.5%	30.2%					14.9%					15.5%	21.4%
Net income growth, yr/yr	45.0%	97.1%					5837.0%					-49.8%	220.3%
EPS growth, yr/yr	53.2%	97.2%					5305.0%					-50.3%	231.8%
Gross margin	18.3%	20.2%	19.7%	19.9%	18.0%	19.0%	19.1%	18.3%	18.1%	18.1%	18.0%	18.1%	18.0%
Operating margin	-2.6%	1.9%	3.9%	4.5%	3.1%	4.6%	4.0%	4.8%	0.2%	2.1%	4.4%	2.9%	5.3%
Net margin	-2.3%	-0.1%	1.9%	2.3%	3.6%	2.4%	2.6%	2.4%	-0.8%	0.3%	2.4%	1.1%	2.9%
Direct costs, % sales	81.7%	79.8%	80.3%	80.1%	82.0%	81.0%	80.9%	81.7%	81.9%	81.9%	82.0%	81.9%	82.0%
Salaries, wages & benefits	52.8%	56.6%	55.7%	57.6%	56.7%	57.8%	57.0%	57.0%	56.8%	56.7%	57.0%	56.9%	57.0%
Medical expenses	25.6%	19.5%	21.3%	19.5%	21.4%	18.9%	20.3%	21.0%	20.8%	21.3%	21.0%	21.0%	21.0%
Other direct operating exp,	3.3%	3.7%	3.4%	3.0%	3.9%	4.3%	3.7%	3.7%	4.3%	4.0%	4.0%	4.0%	4.0%
G&A expense, % sales	15.7%	14.6%	13.6%	13.5%	13.5%	13.0%	13.4%	12.4%	17.0%	15.3%	12.5%	14.3%	12.0%
Effective tax rate	0.0%	80.7%	48.7%	50.1%	40.2%	48.2%	46.2%	42.6%	20.6%	80.7%	47.0%	54.2%	45.0%
EBITDA, \$\$	1,066	2,968					3,480					2,853	5,100
EBITDA margin	2.6%	5.6%					5.7%					4.1%	6.0%

Source: Company Reports and Crystal Equity Research Estimates

Table X: Historic and Projected Cash Flows

	2007	2008	2009	2010	2011E	2012E
CASH FROM OPERATIONS						
Net income (loss)	(1,671)	(919)	(27)	1,549	777	2,489
Adjustments to reconcile net income:						
Depreciation & amortization	2,094	2,132	1,971	1,027	821	600
Deferred income taxes	(90)		(838)			
Stock-based compensation expense	556	574	629	636	700	750
(Gain) loss on fair value of derivatives				(324)		
Loss on sale of assets	-	2				
Income tax benefit on warrant exercises	162			(236)		
Other	-	(555)	1,228	603		
Changes in assets & liabilities:						
(Increase) decrease in accounts receivable	(315)	(623)	99	(421)	(180)	(615)
(Increase) decrease in other assets	304	(75)	(675)	(336)	-	-
Increase (decrease) in accounts payable	(157)	243	409	324	(92)	371
Increase (decrease) in deferred revenue	249	209	457	(419)	451	224
Increase (decrease) in accrued liabilities	635	1,823	1,055	290	173	1,112
Net cash provided by (used in) operating activities	1,767	2,811	4,308	2,692	2,650	4,931
CASH FLOWS FROM INVESTING						
Purchase of property, plant & equipment	(208)	(426)	(293)	(310)	(600)	(500)
Acquisitions, net of cash acquired	(7,795)	(2,014)	(188)	(147)		
Payments related to intangible assets	-		(87)	(263)		
Net cash used in investing activities	(8,003)	(2,440)	(568)	(720)	(600)	(500)
CASH FLOWS FROM FINANCING						
Net proceeds (payments) long-term debt	(297)	(76)	(205)	-	-	-
Borrowings (payments) on line of credit	-	40				
Short-term borrowings	289					
Proceeds from exercise of warrants	36	-	49	6		
Net proceeds from equity offering	12,917	-				
Tax benefits from warrant exercise, options	162	-	-	236	(700)	(750)
Net cash provided by (used in) financing activities	13,107	(36)	(156)	242	(700)	(750)
NET INCREASE (DECREASE) IN CASH	6,871	335	3,584	2,214	1,350	3,681
CASH & EQUIVALENTS, beginning	266	7,137	7,472	11,056	13,270	14,620
CASH & EQUIVALENTS, ending	7,137	7,472	11,056	13,270	14,620	18,301

Source: Crystal Equity Research Estimates

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ANALYST

Debra Fiakas, CFA is a seasoned, credentialed investment professional with a diversified and successful track record as a research analyst and as an investment banker. Her decade-plus career includes solid experience in all aspects of the equity capital markets with particular emphasis on emerging growth companies operating in the technology sectors. Ms. Fiakas is also the principal member of Crystal Equity Research, LLC.

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Speculative Buy	2	66%	Unproved business model; catalysts exist to generate higher returns
Accumulate	1	34%	Long-term return potential above 10%; near-term catalysts may not exist
Hold	0	0%	Total return potential below 10%; an acceptable long-term holding
Sell	0	0%	Potential return greater than negative 10%; take profits or stem losses
Not Rated	0	0%	No rating
Total	3	100%	

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HISTORICAL RECOMMENDATIONS AND TARGET PRICE: Conmed Healthcare / CONM

<u>Report</u>	<u>Date</u>	<u>Price</u>	<u>Rating</u>	<u>Target Price</u>
Reinstatement	1/17/12	\$2.82	Accumulate	\$4.50

DISCLOSURES

<u>Name</u>	<u>Symbol: Exchange</u>	<u>Disclosures</u>
Conmed Healthcare Management	CONM: NYSE AMEX	D

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