

OCT/BB: CMHM

July 7, 2008

Rating: **Speculative Buy**  
(Initial)

Recent Price: **\$1.70**  
(7/3/08)

Price Target: **\$4.50**  
(Initial)

## Conmed Healthcare Management, Inc.

Healthcare Services; Corrections

### MARKET DATA

52-Week High/Low	\$4.25 - \$1.30
Ave. Daily Volume (6-mos.)	11 K
Shares Outstanding	12.0 M
Inside Ownership	25.8%
Institutional Ownership	52%
Float	9.0 mln
Short Interest (% of float)	<1%

### FINANCIAL DATA

Market Capitalization	\$20.4 M
- Cash & Equivalents	\$ 7.1 M
+ Long-term Debt	\$ 0.1 M
Enterprise Value	\$13.4 M
Book Value	\$14.6 M
Working Capital	\$ 5.8 M
Dividend Yield	Nil

Balance sheet figures as of 3/31/08

	SALES	NET EARN	CFO	EPS
2007P*	\$26.1	(\$1.7)	\$1.7	(\$0.16)
1Q08A	\$ 7.8	(\$0.6)	\$0.4	(\$0.05)
2Q08E	\$ 8.3	(\$0.4)		(\$0.03)
3Q08E	\$ 9.0	(\$0.3)		(\$0.03)
4Q08E	\$ 9.3	(\$0.3)		(\$0.02)
FY08E	\$34.3	(\$1.6)	\$1.7	(\$0.13)
FY09E	\$41.0	\$0.2	\$2.3	\$0.02

Dollars in millions, except EPS; Fiscal year ends Dec.  
\*2007 results shown pro forma for calendar year 2007

### VALUATION

Price/Sales	0.8 X
Price/CFO	12.0 X
Price/Trailing 12-mo. Earnings	Neg
Price/Book Value	1.4 X
Consensus EPS Estimate 2008	NA
Forward PE	NA
Consensus EPS Estimate 2009	NA
Forward PE	NA

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Conmed Healthcare Management is a provider of healthcare services at county and municipal correctional facilities in the continental U.S. The Company has contracts for twenty-nine county sites in five states, caring for approximately 13,000 detainees. Services include medical and behavioral healthcare for all inmates as well as record keeping and compliance functions. Conmed is headquartered in Hanover, Maryland and maintains an Internet presence at [www.conmed-inc.com](http://www.conmed-inc.com).

### HIGHLIGHTS

- **Market Opportunity.** Inmate populations in the U.S. are growing. The Justice Department indicates the U.S. prison population was approximately 2.3 million in June 2007, comprised of 1.6 million in state or federal jurisdictions and 780,581 in local jails. Local jail facilities operated at 96% of their rated capacity at mid-year 2007.
- **Revenue Growth.** Conmed boasts 100% client retention since the Company's inception in the late 1980s. Strong client satisfaction and a string of new contracts have helped double revenue in the last two years, reaching \$28.4 million in the twelve months ending March 2008.
- **Profitability.** Meticulous attention to quality-of-care and cost management have helped Conmed increase profit margins to 18.8% in the most recently reported quarter from 17.3% in 2006.
- **Estimates.** Depletion of intangible assets created in Conmed's 2007 reverse merger is a key element in reported results. Our earnings model demonstrates a swing to reported net profits in 2009. We estimate operations can generate \$1.7 million and \$2.3 million in cash in 2008 and 2009, respectively.
- **Rating and Price Target.** We initiated coverage of CMHM with a Speculative Buy rating and set a twelve- to eighteen-month price target of \$4.50. We expect strong year-over-year comparisons at the top-line in coming quarters to gain the attention of investors. New contract announcements could also serve as strong catalysts for the stock.

**PLEASE READ THE IMPORTANT DISCLOSURES AND DISCLAIMER ON PAGES 18 AND 19 OF THIS REPORT.**

## INVESTMENT THESIS

Health care is a salient issue in the 2008 presidential election, but services in correctional settings are rarely discussed by politicians. Nonetheless, the health and well being of detainees and inmates are high on the priority list of law enforcement and corrections officials, who are mandated by the Constitution to ensure the physical and mental health of men and women behind bars. The burden is awkward for agencies that are better trained for safety and security tasks than to diagnose, prescribe and nurse. More importantly it is costly to maintain in-house health care programs. Consequently, in recent years there has been a **shift to outsourcing health care functions in jails and prisons**. The trend has fostered a crop of private correctional operations offering medical and behavioral health care services.

**Conmed Healthcare Management** stands out in the group 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 services required in the short-term, transitory environment of local jails and detention centers. The Company has accumulated over twenty years experience in meeting federal standards for correctional care and claims passage of all accreditation and government agency audits in its history.

The Company provides health care services in twenty-nine county sites in five states, caring for approximately 13,000 detainees. Conmed boasts a **100% client retention rate** since the Company's inception in the late 1980s. This high level of customer satisfaction has helped double revenue in the last two years, reaching \$28.4 million in the twelve months ending March 2008. A **busy contract pipeline** portends a continuation of Conmed's recent growth. The Company has won five new multi-year contracts in the last twelve months valued at an estimated \$14.3 million in annual revenue. By the end of June 2008 the annual revenue run rate rose to \$36.0 million.

Meticulous attention to quality-of-care and cost management have helped Conmed increase profit margins to 18.8% in the most recently reported quarter from 17.3% in 2006. Despite the strong top-line growth and increasing margins, Conmed has reported net losses in the last two years. Amortization of intangible assets created when the private health care operation was merged into a public shell in January 2007, has added to operating expenses. Excluding the amortization charges we estimate net profits were \$364,000 or \$0.04 per share in the year 2007 compared to the reported net loss of \$1.7 million or \$0.16 per share. Likewise, we estimate a nominal net loss of \$66,054 in the March 2008 quarter compared to the reported loss of \$552,054. Our earnings model demonstrates a swing to reported net profits in 2009. Importantly, we estimate operations can **generate \$1.7 million and \$2.3 million in cash in 2008 and 2009**, respectively.

Conmed is **targeting the 3,000-plus county jurisdictions in the U.S.** with a high valued-added service proposition. The Company's 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 \$7.1 million in cash and nominal debt on its balance sheet at the end of March 2008. Working capital was \$5.8 million.

## VALUATION AND OUTLOOK

We initiated coverage of CMHM with a Speculative Buy rating and set a twelve- to eighteen-month price target of \$4.50. Our price target is based in part on multiples of 1.0 and a 35.0 times our 2008 estimated sales and cash flow from operations, respectively. This approach implies fair valuation in a range of \$2.80 and \$4.95. However, we note that historic trading patterns in the stock suggest a resistance exists at the \$4.50 price level, which also coincides with the peak of the stock's 200 day moving average.

In our view, the stock is oversold by at least 20% on the basis of trailing results alone. We believe investors have not fully digested the details of the Company's reported results, in particular the implications of one-time and non-cash charges that have led to reported net losses. We expect strong year-over-year comparisons at the top-line in the next few quarters to gain the attention of investors and lead to a revaluation. New contract announcements should also serve as strong catalysts for the stock.

## INVESTMENT RISKS

In our view, shares of Conmed Healthcare Management are **relatively unseasoned in the public equity market**. The Company became public through a reverse merger of the Conmed health care operation into a public “shell” in early 2007. Furthermore, since internal cash flow has been sufficient to support the strategic growth plan, the Company has not been involved in the kind of capital raising efforts that typically raise investor awareness and knowledge. Consequently, the Company has had limited exposure to investors. Trading volumes remain limited.

Our investment thesis, valuation and price target are **dependent upon our estimates**. If the Company fails to report sales and earnings of the magnitude we expect, the stock price may not rise to our target price. Valuation of the stock may even be reduced from current levels. The Company does business through long-term contracts, some of which represent a material portion of total revenue. Loss of a contract or failure to win new contracts would have a negative impact on our estimates. Furthermore, unexpected changes in the detainee populations the Company treats or higher than expected inflation could cause the Company to spend more on medical supplies or personnel to meet their contractual commitments. Consequently, profit margins and earnings may not be as high as we expect.

## BUSINESS DESCRIPTION

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. The Company currently cares for approximately 13,000 detainees in twenty-nine county sites in five states.

Conmed first began business in 1987, operating successfully as a private company until January 2007, when it was merged with a public “shell” company. The Company was subsequently renamed Conmed Healthcare Management. Now headquartered in Hanover, Maryland, the Company has approximately 360 full-time employees and 140 part-time and contracted employees.

## SERVICES

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.

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**Table I: Service Categories**

General healthcare	IV therapy	Durable medical equipment
Acute care	Dialysis	Hospitalization
Surgical	Physical therapy	Mental health
Laboratory	Occupational therapy	Dental
Diagnostic and Imaging/Radiology	EKGs	Pharmacy

Source: Company Reports

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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.

### ***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 enrolled in special clinics for regular, structured treatment.

Furthermore, Conmed can 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.

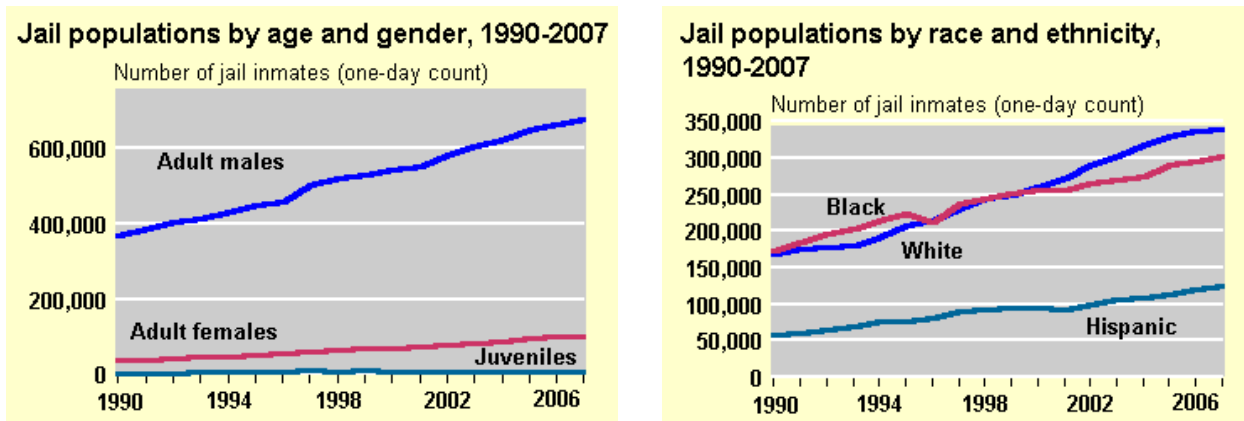
### ***Behavioral Health Program***

Conmed recently **expanded its service offering to include behavioral health management**. Since Conmed's services are provided in a jail environment where inmates are typically incarcerated for a short periods of time, the program is a recovery and transition services model. Conmed's program is designed to aid the inmate in making the transition from the temporary jail setting back home or on to the prison facilities where a sentence is served. Since community-based providers are a critical element in a successful return of the inmate back to the community at large, Conmed's services include helping its clients identify such providers and set up adequate referral networks. Chesapeake County in Virginia is Conmed first client to contract for Conmed's the behavioral health program. Of the 1,200 inmates typically held in the Chesapeake jail at any given time, as many 500 may need mental health care. We expect Chesapeake County to serve as a strong reference client for Conmed in seeking new contracts.

## **MARKETS / CUSTOMERS**

Prison inmates are the only Americans with a **constitutional right to health care**. The right of incarcerated persons harkens 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 likely to transmit communicable diseases to the community.

Although the rate of growth slowed in the most recently reported period measured by the U.S. Justice Department, **the prison population around the country is growing**. The number of prisoners rose 1.6% in the first six months of 2007, compared to 2.0% growth in the same period in 2006. Prison admissions increased at a slower rate, but continued to outpace growth in releases. Admissions increased 2.3% between 2005 and 2006, the most recent data available. During the same period, prison releases increased by just 2.1%. At play in prison population trends are increases in the number of parole violators returning to prison and state and federal drug laws that mandate prison sentences.

**Chart I: Jail Population by Age, Gender, Race and Ethnicity**

Source: Bureau of Justice Statistic Correctional Surveys

The Justice Department reports that the U.S. prison population was approximately 2.3 million in June 2007, comprised of 1.6 million in state or federal jurisdictions and 780,581 in local jails. During the twelve months ending June 2007, local jail facilities added approximately 15,500 beds and operated at 96% of their rated capacity by mid-year 2007.

For the provisioning of health care, a **shift in the composition of jail populations** is as significant as inmate population growth. First, the gender of inmate populations is shifting to a higher percentage of females. According to a Pew Center study on public safety, men are still roughly 13 times more likely than women to be incarcerated, but the female inmate population is expanding at a far brisker pace. Second, the population of elderly jail and prison inmates over the age of 55 years almost doubled in size between 1995 and 2003. The consequences of these trends are laid bare by data from a U.S. Department of Justice Survey in 2002, which found that more than one third of jail inmates reported having a current medical problem, including heart valve damage and arrhythmia. More and more inmates have chronic and terminal illnesses, such as HIV and AIDS, tuberculosis and hepatitis. As many as one inmate in ten is suffering from mental illness.

The burden of meeting federal standards for health care under such conditions is challenging from both a programmatic and cost standpoint. Health care is awkward for agencies that are better trained for safety and security tasks than to diagnose, prescribe and nurse. According to the Pew Center study, **the cost of medical care alone in correctional settings is growing by 10% annually.** Detention center authorities have increasingly turned to third-party service providers for health care services. The call for help has been answered by a host of providers from local physicians who are will to contract for care of inmates to corporate entities specializing in institutional health care.

### **Industry Standards**

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.

**Table II: Conmed Health Services Contracts by County**

Client	Average Population	Inception	Termination Date	Next Renewal
Allegany County, MD		1988	2001	
Allegany County, MD renewal	250	2003		2009
Baltimore County, MD	1,400	2007		2009
Calvert County, MD	275	1990		2008
Carroll County, MD	300	1998		2008
Cecil County, MD	200	2003		2009
Charles County, MD	500	1989		2009
Chesapeake, VA	1,400	2008		2009
Dorchester County, MD	240	1983		2008
Douglas County, OR (6 sites)	200	2008		2009
Frederick County, MD	500	2001		2009
Harford County, MD	450	2002		2009
Henrico County, VA (2 sites)	1,280	2007		2009
Howard County, MD	280	2005		2009
Jackson County, VA (3 sites)	300	2007		2010
Kent County, MD	100	1983		2009
Kitsap, OR	440	2007		2010
Loudon County, VA	250	2005		2009
Queen Anne's County, MD	130	1983		2009
St. Mary's County, MD		1983	1992	
St. Mary's County, MD renewal	340	1996		2010
Sedgwick County, KS	1,450	2005		2009
Somerset County, MD	90	2000		2009
Talbot County, MD	140	1984		2008
Wicomico County, MD	780	2007		2008
Yakima County, WA	1,000	2006		2009
Total Inmate Population	12,295			

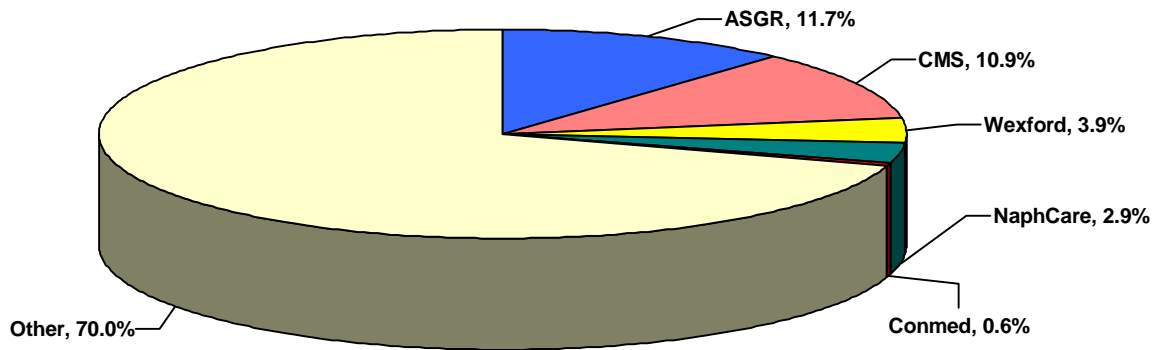
Source: Company Reports

## COMPETITION

A frequent theme in our small-cap coverage universe is industry fragmentation and the window of opportunity such an environment affords smaller contenders to differentiate themselves from competition. Since the corrections health care market is relatively new, it is populated by **numerous competitors** large and small, making it fertile ground for Conmed to capture market share with its highly focused service offering for municipal and county detention facilities.

There are five other **significant corrections health care providers**. Prison Health Services, a division of America Service Group (ASGR: Nasdaq) based in Tennessee, serves state prisons as well as county detention facilities. ASG claims approximately 6% of the total market, including both privatized and non-privatized correctional health care services. At the end of 2007, ASG reported contracts to provide care in over 120 correctional facilities throughout the U.S. involving over 270,000 inmates on average.

Four other private companies also hold significant market share. Like ASG, Correctional Medical Services, Inc. (CMS) in Missouri provides care to inmates in both state prisons and county detention facilities. CMS claims to operate 300 sites in 24 states, serving over 250,000 inmates. Wexford Health Sources, Inc. is self-described as a physician-driven institutional health care program, serving state and county agencies in thirteen states and treating as many as 90,000 patients in 100 facilities. A third private provider is NaphCare based in Alabama. NaphCare claims to serve over 67,000 inmates at 41 sites in nineteen states, including federal prisons, state prisons and county jails. PrimeCare Medical, Inc. of Harrisburg, PA has contracts covering 52 local and state facilities in four states, but does not disclose inmate populations. PrimeCare operates in Maryland, New Hampshire and Pennsylvania.

**Chart II: Market Share by Inmate Population**

Source: Crystal Equity Research Estimates

Since sales figures are not available for CSM, Wexford, PrimeCare or NaphCare, verification of market share is difficult in terms of revenue generated. On the basis of the number of federal, state and local inmates reported by the U.S. Justice Department, we estimate market shares as follows: ASG, 11.7%; Correctional Medical Services, 10.9%; Wexford Health Sources, 3.9%; NaphCare, 2.9%; and Conmed, 0.6%. PrimeCare is included in "other" since it does not disclose inmate population served. Conmed appears to be an also ran in this line-up, but we remind investors that unlike the other five major service providers, Conmed does not target federal or state prisons. In terms of the jail market segment on which Conmed is focused, its market share appears to be 1.7%.

In addition to the five larger competitors named above there are a large number of smaller service providers with local or regional market focus. Examples include Correct Care Solutions, LLC (Nashville, TN), Armor Correctional Health Services (a division of MCCI of Miami, FL), California Forensic Medical Group (Monterrey, CA) and Advanced Correctional Healthcare (Peoria, IL). Other local providers such as Maxim Healthcare Services, Inc. (Columbia, MD) provide staffing for correctional facilities.

We note there have been a few mergers in the industry and we expect **further consolidation** as smaller operations seek affiliation with superior platforms to gain access to capital for growth or to monetize equity interests. For example, ASG acquired Correctional Physician Services, Inc. in 2000 and in early 2008 Conmed acquired service contracts from Emergency Medicine Documentation Consultants.

### **Competitive Position**

In our field work, we gathered anecdotal evidence that Conmed holds a **strong competitive position against the four largest contenders and other niche players**. While Conmed appears to have won contracts away from each ASG, CMS, Wexford and NaphCare, Conmed has yet to permanently lose a contract to any of the other four. We note that two of Conmed's the longest running relationships each elected not to renew contracts with Conmed in the course of the public bidding process typical of county governments. Both jurisdictions subsequently chose to return to Conmed, after one year in the first case and after three years in the second case. Representatives of both jurisdictions indicate that their decision to return to Conmed was triggered by quality of service considerations and not pricing.

A high level of professionalism, detailed management practices, and quick response to health care issues were also cited by other customers 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.

### **Legal Exposure; Client Relationships**

Conmed makes the claim that it has never had a legal dispute with any of its clients and our field work has not found any anecdotal evidence to the contrary. We believe Conmed's emphasis on thorough inmate screening and adherence to strict policies on daily health care routines could reduce exposure to legal disputes involving inmates with medical claims. Nonetheless, the Company is not immune to lawsuits by inmates. While two separate legal actions have been dismissed, Conmed has disclosed at least three outstanding claims involving medical care allegations that have not been resolved. Two recent suits of the same nature were settled within the limits of insurance policies.

We note that each of the other four larger competitors appears to have past or ongoing legal disputes with former clients and/or inmate patients involving quality of care issues. For example, a lawsuit was filed against the Alabama Department of Corrections and Naphcare in 2002, alleging failure to provide medical and mental health treatment for women prisoners. In 2003, an inmate brought suit against the Wyoming Department of Corrections, CMS and Wexford Health Sources alleging failure to provide prescribed pain and blood pressure medications and falsification of medical records. We note a district court granted a summary judgment in favor of the defendants. CMS has not fared as well in other disputes. The Virginia Department of Corrections fined CMS nearly one million dollars for failure to provide a dentist and optometrists are required by contract and failure to provide medical privacy and confidentiality of patient health information.

As a public company the legal position of AGS is easier to determine. AGS lists seven separate legal disputes in its most recent annual report with the SEC, some still unresolved and some which have been decided against AGS. Two suits involve breach of contract, one with a client and one with an employee, and four suits involved failure to provide adequate health care. In the seventh suit, AGS is seeking to recover expenses from a former client, who has filed a counter claim that AGS failed to provide proper management of patient records to justify the expense claims.

### **LEADERSHIP AND OWNERSHIP**

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**. Conmed suggests its management team represents over 180 years of combined experience in the provision of health care and correctional management. Key management team members include:

- Dr. Richard Turner, who is the Company's Chief Executive Officer, has a twenty-five 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 for approximately 25 years, including top positions at Eyetel Imaging, BEI Medical, and the Healthcare Group for Cooper Companies.
- Dr. Howard Haft is the Company's Chief Medical Officer. Haft is a licensed medical doctor and board certified specialist in internal and emergency medicine. He serves on the Board of Directors of Apollo Medical Corporation that provides practice management services to Maryland Healthcare Associates. Haft also serves as President of the Maryland Foundation for Quality Healthcare, a not for profit corporation providing healthcare education to the underprivileged of Maryland.
- Along with Haft, Ronald Grubman is a founder of Conmed. Grubman is a board certified physician assistance and an Executive Vice President of Conmed.
- Another key position is that of Lawrence Delbridge, Senior Director of Quality Assurance. Delbridge has twenty-five years experience in correctional operations and management.
- One of the newest additions to senior management is Dr. Brian Sims, who is the Senior Director Conmed's new Mental and Behavioral Health Program. Sims is a board certified psychiatrist with over twenty years experience in clinical care and program development for incarcerated patients.

Insiders own 25.8% of Conmed's current 12.0 million outstanding shares. Assuming exercise of their options, **insider ownership** would increase to approximately 28.6% of the then outstanding shares. Significant shareholders of 5% or of more Conmed shares own another 6.2 million shares or 51.7% of the current outstanding shares. Certain of these significant owners also own 666,667 warrants.

**Table III: Insider and Significant Ownership**

Name	Position	Years	Stock	Derivatives	Total	Experience
R. Turner, PhD.	CEO, Chairman	2	-0-	418,750	418,750	Exec. mngmnt.; health care
J. Pappajohn	Director - 1, 2	13	2,508,342	15,556	2,663,898	Finance; venture capital
E. Berger	Director - 1, 1, 2	2	15,000	16,667	31,667	Exec. mngmnt.; health care
T. Branstad	Director - 1, 1, 2	2	-0-	16,667	16,667	Attorney; public service
J. Collaton	Director - 1, 1	2	-0-	-0-	-0-	Exec. mngmnt.; health care
H. Haft, MD	Chief Medical Officer	2	533,334	29,514	562,848	Medicine; health care service
T. Fry	Chief Financial Officer	2	-0-	41,792	41,792	Finance; accounting
Officers as a Group			3,056,676	538,946	3,595,622	
5% Holders			6,226,878	666,667	6,893,545	

1 - Independent Director

1 - Audit Committee

2 - Compensation Committee

Source: Company Reports and Crystal Equity Research Estimates

## FINANCIAL SUMMARY

**Revenue.** The Company's contractual agreements with correctional institutions typically fall into two general categories: fixed monthly fee or cost plus a fee. Revenue for population-based contracts is based either on a fixed fee that is subsequently adjusted using a per diem rate for variances in the inmate population from predetermined population levels or on a per diem rate multiplied by the average or actual inmate population for the period of service. For cost plus a fee contracts, the Company's revenue is based on actual expenses incurred during the service period plus a contractual fee.

The Company's success in winning new contracts coupled with a high client retention rate has produced a business model with a **significant recurring revenue** element. Local governments typically publish requests for proposals (RFPs) every three to five years at which time the Conmed must compete for the assignment in a public bidding process. In only two instances has Conmed not won bid proffered by existing client. In both cases Conmed was reinstated as the winning contractor in the next round of bid letting. On the basis of our field work, we understand Conmed regained the contracts on the basis of quality of work considerations and not on the basis of being the low bidder.

Conmed's client retention record along with a string of new contracts has helped drive sales in the twelve-month period ending March 2008, to \$28.4 million compared to \$11.7 million in calendar year 2005, the first year Conmed publicly reported revenue. Expansion of service and price increases accounted for \$1.1 million of 2007 sales growth or 7% of the year-over-year increase. Five contracts provided 57% of total revenue in 2007, including Baltimore, Sedgwick, Hartford, Yakima and Charles counties. At the end of March 2008, the Company reported contact backlog totaling \$117 million (weighted average term of 5.6 years), of which \$100 million is attributed to option renewal periods. Since that date, the Company signed an additional contract bringing the **annual run rate to \$36 million**.

**Table IV: Contracted Sites\*** (end of period)

	2005	2006	2007	June 2008
Contracted Sites	16	17	23	29

Certain county contracts involve multiple sites.

Sources: Company Reports

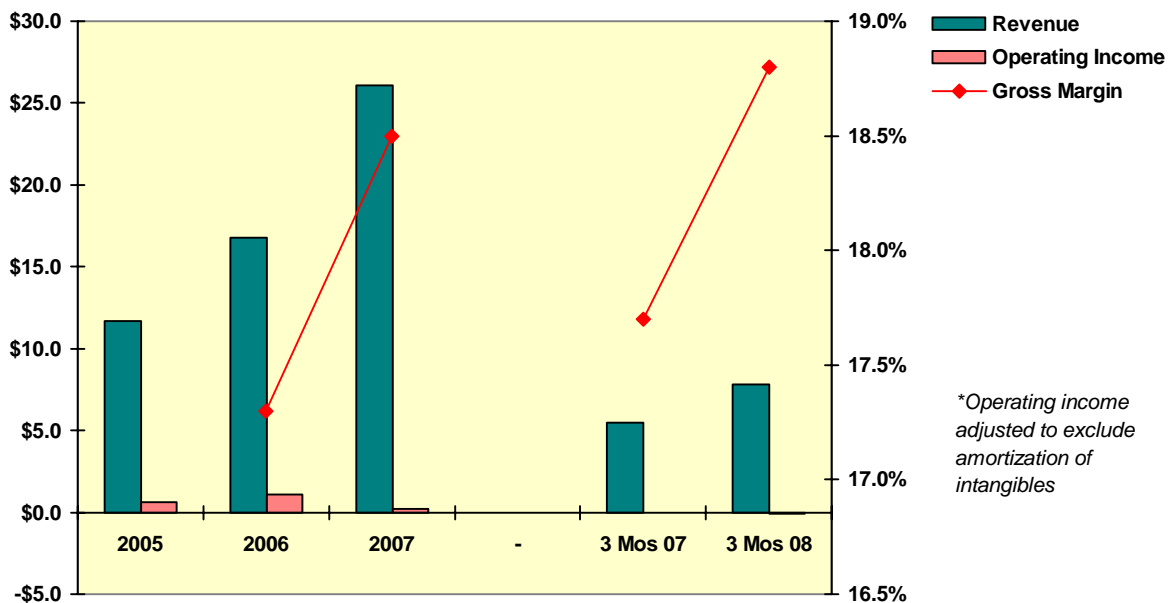
**Profitability.** Gross margin in the calendar year 2007 was 18.5% compared to 17.3% in 2006. Gross margin in calendar year 2005 is not available since the Company was private in that year and did not separate direct and operational costs. The **improvement in profitability** has continued in the first quarter of 2008, when the gross margin was 18.8% compared to 17.7% in the prior year quarter. Management attributes the margin increase to a combination of improved contractual arrangements and successful cost control measures.

Under Conmed’s various contractual arrangements the Company is at risk for expenses associated with those patients exhibiting chronic or catastrophic medical conditions. The Company limits potential risks with aggregate or per patient caps built into its various contracts. Annual CPI (Consumer Price Index) increases are also included in most contracts. Conmed also uses third-party payer arrangements such as preferred provider organizations (PPO) when available in the jurisdiction to cover hospitalization.

In addition to contractual protections, the Company engages in meticulous cost management with monthly review of expenses for each contract site. National accounts with pharmacies and laboratories provide large-purchase discounts for these services. Cost savings are also achieved through strict adherence to company-wide policies designed to improve health outcomes. Such policies include those relating to health assessments and follow-up care for chronic illnesses, emphasis on preventative care, and use of generic drugs for prescriptions.

**Operating Income.** The amortization of intangible assets is a key element in Conmed’s financial picture. The Company reported an operating loss of \$1.8 million in 2007 on \$26.1 million in sales. This compares to a net profit of \$1.1 million on \$16.8 million in sales in 2006. Included in 2007 is a \$2.1 million charge associated with the amortization of an intangible created in reverse merger of the private Conmed predecessor operation into the public shell company. Excluding this charge we estimate the operating profit in 2006 would have been \$200,000. Likewise an operating loss of \$600,000 was reported in the first quarter 2008, compared to an operating loss of \$500,000 in the prior-year quarter. Included in 1Q08 is a charge of \$500,000 for amortization. On an adjusted basis, we estimate the operating loss would have been \$100,000.

**Chart III: Historic Sales, Adjusted Operating Income and Gross Margin**



Source: Company Reports and Crystal Equity Research Estimates

**Balances and Cash Flow.** Conmed held \$7.1 million in cash on its balance sheet at the end of March 2008. Cash has been fortified with \$1.3 million in cash flow generated by operations in the twelve months ending March 2008. Working capital also increased to \$5.8 million. We note that accounts receivable totaling \$2.3 million at the end of March 2008, included \$1.0 million in receivables attributable to one of the Company's significant customers. The receivable represented all the billings and reported revenue attributable to that customer during the March 2008 quarter. We believe the anomaly is a matter of timing and that the receivables and collections will have returned to historic patterns by the time the Company reports the June quarter results.

Equity totaled \$5.8 million at the end of March 2008. Debt was a nominal \$114,000. In addition to 12.0 million shares of common stock the Company had 1.6 million options and 2.6 million warrants outstanding, representing a 26% dilution to existing shareholders if fully exercised. Approximately, 1.6 million warrants are exercisable at \$0.30 per share and are considered in-the-money at the current stock price. The outstanding options are exercisable at \$2.15 per share and are therefore not in-the-money. If fully exercised the options and warrants would garner \$2.8 million and \$3.4 million in paid-in capital, respectively.

Conmed's balances also include goodwill totaling \$4.9 million and intangible assets totaling \$3.4 million. Both the goodwill and intangible assets arose through the reverse merger of the private Conmed operation with a public shell corporation. The intangibles include \$2.7 million attributed to the service contracts in place at the time of the merger and \$749,000 related to non-compete agreements. The intangible assets are being amortized over a four-year period ending in 2011.

**Table V: County Contracts by Renewal Year**

Client	Average Population	Inception	Termination Date	Next Renewal
Calvert County, MD	275	1990		2008
Carroll County, MD	300	1998		2008
Dorchester County, MD	240	1983		2008
Talbot County, MD	140	1984		2008
Wicomico County, MD	780	2007		2008
Allegany County, MD renewal	250	1988 / 2001		2009
Baltimore County, MD	1,400	2007		2009
Cecil County, MD	200	2003		2009
Charles County, MD	500	1989		2009
Chesapeake, VA	1,400	2008		2009
Douglas County, OR (6 sites)	200	2008		2009
Frederick County, MD	500	2001		2009
Harford County, MD	450	2002		2009
Henrico County, VA (2 sites)	1,280	2007		2009
Howard County, MD	280	2005		2009
Kent County, MD	100	1983		2009
Loudon County, VA	250	2005		2009
Queen Anne's County, MD	130	1983		2009
Sedgwick County, KS	1,450	2005		2009
Somerset County, MD	90	2000		2009
Yakima County, WA	1,000	2006		2009
Jackson County, VA (3 sites)	300	2007		2010
Kitsap, OR	440	2007		2010
St. Mary's County, MD renewal	340	1983 / 1996		2010

Source: Company Reports and Crystal Equity Research Estimates

## EARNINGS MODEL

**Estimated Revenue.** Our earnings model is based on the Company's most recently reported revenue run rate of \$36.0 million. We believe this run rate could produce \$34.0 million in sales in 2008 and \$41.0 million in 2009. We expect the ramp in sales to accrue primarily from renewal of existing contracts, expansion of services with client jurisdictions, increases in inmate populations and pricing increases. Most contracts have initial terms of one or two years with annual renewals for multiple additional years. Based on Company reports we believe there are as many as five contracts that are slated for renewal in 2H08 and sixteen contracts in the year 2009. We estimate the upcoming renewals represent 14% (2008) and 77% (2009) of contracts in force by inmate population. Our model assumes renewals of all contracts currently in place.

Since our estimates for 2008 and 2009 are based primarily on the current contract base, new contracts represent upside to our estimates. Management has not disclosed details of its business pipeline beyond suggesting that the Company is targeting county detention facilities with inmate populations over 500 in certain states in the southern and western U.S. The Company uses trade magazine advertising to build brand awareness and memberships in professional and governmental organizations for market intelligence on upcoming requests for proposals.

We believe the Company has as many a half dozen proposals underway at various stages of development. Additionally, the Company has approached existing clients with its new Behavioral Health program, which would represent substantial expansion of services and revenue. The sales cycle is extended, involving a period of due diligence, proposal development, presentation to law enforcement and government authorities, and formal bidding processes. Given limited visibility into the business pipeline, we expect to update our earnings model at the time new contracts are announced.

**Estimated Profits.** Our model reflects an estimated profit margin of 18.5% over the next seven quarters based on the average rate in calendar year 2007. We have assumed no change in personnel or medical cost rates relative to sales.

**Operating Expense Assumptions.** In our view, Conmed's business model affords an element of operating leverage. We believe the current administrative staff should be able to handle expansion of existing contract as well as the addition of new clients without significant additions of personnel. Thus we have assumed SG&A expenses of \$6.0 million and \$6.2 million in 2008 and 2009, respectively, compared to SG&A of \$4.5 million reported in 2007. As a percentage of sales, our SG&A estimates are 17.3% and 15.2% of total estimated sales in 2008 and 2009, respectively, compared to 17.4% in reported revenue for 2007.

**Estimated Net Income.** The depletion of intangible assets is a key element in Conmed's ramp to reported profitability. The rapid amortization schedule for the intangible assets trimmed \$2.1 million off operating profits in 2007. The Company's published schedule for amortization calls for additional amortization charges of \$2.1 million and \$1.1 million in 2008 and 2009, respectively. Accordingly, total depreciation and amortization expenses in our model are assumed to be \$2.1 in 2008 and \$1.2 million in 2009.

Our assumptions result in a net loss of \$1.5 million or \$0.13 per share in 2008, followed by a swing to reported profitability on the lower amortization charge in 2009. Our estimated 2009 net income is \$203,000 or \$0.02 per share.

**Cash Flow From Operations.** Our model assumptions suggest Company's operations can generate \$1.7 million and \$2.3 million in cash in 2008 and 2009, respectively. Our cash flow estimates include assumptions of non-cash expenses totaling \$2.7 million and \$1.8 million in 2008 and 2009, respectively. Non-cash expenses are composed of depreciation, amortization and stock compensation.

***Additional information is available upon request.***

**Table VI: Historic and Projected Balances**

Dollars in Thousands	2005	2006	2007	2008E
<b>CURRENT ASSETS</b>				
Cash & cash equivalents	1,739	122	7,137	7,879
Accounts receivable, net	-	1,304	1,622	1,881
Other current assets	19	227	215	215
Total current assets	1,758	1,653	8,974	9,976
<b>LONG-TERM ASSETS</b>				
Property, plant & equipment, net	-	46	213	641
Deferred taxes	-	-	90	90
Intangible assets, net	-	-	3,448	1,342
Goodwill	-	-	4,852	4,852
Other long-term assets	-	2	59	59
TOTAL ASSETS	1,758	1,701	17,636	16,960
<b>CURRENT LIABILITIES</b>				
Accounts payable	4	581	837	1,118
Accrued liabilities	-	988	1,569	1,957
Deferred revenue	-	104	353	515
Current portion of long-term debt	-	7	8	5
Total current liabilities	4	1,680	2,767	3,596
Long-term debt	-	13	5	8
<b>STOCKHOLDER'S EQUITY</b>				
Common stock			1	1
Additional paid-in capital			35,902	35,902
Retained earnings (deficit)			(21,039)	(22,547)
Total stockholders' equity	1,754	8	14,864	13,356
TOTAL LIABILITIES AND EQUITY	1,758	1,701	17,636	16,960
<b>SELECTED MEASURES</b>				
Sales growth			55.4%	31.7%
Net income growth			258.5%	9.8%
Growth in cash from operations			103.6%	-2.2%
Growth in accounts receivables			24.4%	16.0%
Return on invested capital	-4.0%	5019.0%	-11.2%	-11.3%
Return on assets		60.9%	-17.3%	-8.7%
Debt-to-equity	0.0%	162.5%	0.0%	0.1%
Debt as \$ of total capital	0.0%	61.9%	0.0%	0.1%
Working capital, \$\$	1,754	(27)	6,207	6,380
Total capital (long-term debt & equity)	1,754	21	14,869	13,364

Balances in 2005 and 2006 represent the predecessor operation.

Source: Company Reports and Crystal Equity Research Estimates

**Table VII: Historic and Projected Cash Flows**

	2005*	2006*	2007	2008E	2009E
<b>CASH FROM OPERATIONS</b>					
Net income (loss)	(71)	1,054	(1,671)	(1,508)	203
Adjustments to reconcile net income:					
Depreciation & amortization	-	40	2,094	2,164	1,240
Deferred income taxes	-	-	(90)		
Stock-based compensation expense	10	-	556	500	550
Loss on sale of assets	-	10	-		
Income tax benefit on warrant exercises	-	-	162		
Changes in assets & liabilities:					
(Increase) decrease in accounts receivable	-	(757)	(315)	(259)	(365)
(Increase) decrease in other assets	(12)	(126)	304	-	-
Increase (decrease) in accounts payable	-	105	(157)	281	218
Increase (decrease) in deferred revenue		(9)	249	162	100
Increase (decrease) in accrued liabilities	3	551	635	388	382
Net cash provided by (used in) operating activities	(70)	868	1,767	1,728	2,327
<b>CASH FLOWS FROM INVESTING</b>					
Purchase of property, plant & equipment	-	(24)	(208)	(486)	(400)
Acquisitions, net of cash acquired	-	-	(7,795)		
Gross proceeds from sale of property	-	52	-		
Net cash used in investing activities	-	28	(8,003)	(486)	(486)
<b>CASH FLOWS FROM FINANCING</b>					
Net proceeds (payments) long-term debt	-	(51)	(297)	-	-
Short-term borrowings	-	-	289		
Distributions to shareholders		(1,210)	-		
Proceeds from exercise of warrants	-	-	36	-	-
Net proceeds from equity offering	-	-	12,917	-	-
Tax benefits from warrant exercise, options	-	-	162	(500)	(550)
Net cash provided by (used in) financing activities	-	(1,261)	13,107	(500)	1,377
NET INCREASE (DECREASE) IN CASH	(70)	(365)	6,871	742	7,137
CASH & EQUIVALENTS, beginning	1,809	487	266	7,137	7,879
CASH & EQUIVALENTS, ending	1,739	122	7,137	7,879	9,257

\*Cash flows in 2005 and 2006 represent the Conmed predecessor operation.

Source: Company Reports and Crystal Equity Research Estimates

**Table VIII: Historical and Projected Sales and Expenses**

Dollars in Thousands	2006*	1Q07**	2Q07	3Q07	4Q07	2007**	1Q08	2Q08E	3Q08E	4Q08E	2008E	2009E
Revenue	16,777	5,551	5,969	6,965	7,588	26,073	7,836	8,250	9,000	9,250	34,336	41,000
Direct costs												
Salaries, wages & benefits	8,377	2,745	3,093	3,645	4,170	13,653	4,114	4,331	4,725	4,856	18,027	21,525
Medical expenses	4,859	1,614	1,506	1,850	1,723	6,693	2,017	2,145	2,340	2,405	8,907	10,660
Other operating expenses	641	210	247	240	209	906	233	248	270	278	1,028	1,230
Direct costs	13,877	4,569	4,846	5,735	6,102	21,252	6,364	6,724	7,335	7,539	27,962	33,415
Gross profit	2,900	982	1,123	1,230	1,486	4,821	1,472	1,526	1,665	1,711	6,375	7,585
Operating expenses:												
Selling, general & administrative	1,809	959	1,178	1,106	1,300	4,543	1,589	1,403	1,485	1,480	5,957	6,240
Depreciation & amortization	40	501	572	521	499	2,093	499	555	555	555	2,164	1,240
Total operating expenses	1,849	1,460	1,750	1,627	1,799	6,636	2,088	1,958	2,040	2,035	8,121	7,480
Operating income (loss)	1,051	(478)	(627)	(397)	(313)	(1,815)	(616)	(431)	(375)	(324)	(1,746)	105
Other income (expense)												
Interest income	10	60	84	85	84	313	66	60	60	60	246	200
Interest expense	(7)	-	-	(3)	(4)	(7)	(2)	(2)	(2)	(2)	(8)	(3)
Total other income (expense)	3	60	84	82	80	306	64	58	58	58	238	197
Income (loss) before income taxes	1,054	(418)	(543)	(315)	(233)	(1,509)	(552)	(373)	(317)	(266)	(1,508)	302
Provision for income taxes (benefit from)	-	(123)	(168)	291	162	162	-	-	-	-	-	100
Net income (loss)	1,054	(295)	(375)	(606)	(395)	(1,671)	(552)	(373)	(317)	(266)	(1,508)	203
Income available to shareholders	1,054	(295)	(375)	(606)	(395)	(1,671)	(552)	(373)	(317)	(266)	(1,508)	203
Net EPS (loss), available to shareholders***	na	\$ (0.09)	\$ (0.03)	\$ (0.05)	\$ (0.03)	\$ (0.16)	\$ (0.05)	\$ (0.03)	\$ (0.03)	\$ (0.02)	\$ (0.13)	\$ 0.02
Weighted shares outstanding, diluted	na	3,440	11,833	11,937	11,900	10,300	11,989	12,000	12,000	12,000	11,997	12,000

\* 2006 results are shown pro forma as if the January 2007 reverse merger had occurred at the beginning of 2006.

\*\* 2007 results are shown pro forma for the calendar year, reflecting a combination of reported results for the Conmed predecessor for January 1 through January 26, 2007 and the Conmed successor for January 27 through December 31, 2007.

\*\*\* 2007 quarterly EPS figures do not sum due to the anti-dilutive effects of share issuances during the year.

Source: Company Reports and Crystal Equity Research Estimates

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

Dollars in Thousands	2006*	1Q07**	2Q07	3Q07	4Q07	2007* *	1Q08	2Q08E	3Q08E	4Q08E	2008E	2009E
Revenue	16,777	5,551	5,969	6,965	7,588	26,073	7,836	8,250	9,000	9,250	34,336	41,000
Operating income (loss)	1,051	(478)	(627)	(397)	(313)	(1,815)	(616)	(431)	(375)	(324)	(1,746)	105
Net income (loss)	1,054	(295)	(375)	(606)	(395)	(1,671)	(552)	(373)	(317)	(266)	(1,508)	203
Net EPS (loss), available to shareholders***	na	\$ (0.09)	\$ (0.03)	\$ (0.05)	\$ (0.03)	\$ (0.16)	\$ (0.05)	\$ (0.03)	\$ (0.03)	\$ (0.02)	\$ (0.13)	\$ 0.02
Weighted shares outstanding, diluted	na	3,440	11,833	11,937	11,900	10,300	11,989	12,000	12,000	12,000	11,997	12,000
SELECTED MEASURES:												
Sales growth, yr/yr						55.4%					31.7%	19.4%
Net income from cont. oper. growth, yr/yr						258.5%					9.8%	113.4%
EPS cont. oper. growth, yr/yr											22.5%	113.4%
Gross margin	17.3%	17.7%	18.8%	17.7%	19.6%	18.5%	18.8%	18.5%	18.5%	18.5%	18.6%	18.5%
Operating margin	6.3%	-8.6%	-10.5%	-5.7%	-4.1%	-7.0%	-7.9%	-5.2%	-4.2%	-3.5%	-5.1%	0.3%
EBIT margin	6.3%	-7.5%	-9.1%	-4.5%	-3.0%	-5.8%	-7.0%	-4.5%	-3.5%	-2.9%	-4.4%	0.7%
Net margin	6.3%	-5.3%	-6.3%	-8.7%	-5.2%	-6.4%	-7.0%	-4.5%	-3.5%	-2.9%	-4.4%	0.5%
Direct costs, % sales	82.7%	82.3%	81.2%	82.3%	80.4%	81.5%	81.2%	81.5%	81.5%	81.5%	81.4%	81.5%
Salaries, wages & benefits	49.9%	49.5%	51.8%	52.3%	55.0%	52.4%	52.5%					
Medical expenses	29.0%	29.1%	25.2%	26.6%	22.7%	25.7%	25.7%					
Other direct operating expenses	3.8%	3.8%	4.1%	3.4%	2.8%	3.5%	3.0%					
G&A expense, % sales	10.8%	17.3%	19.7%	15.9%	17.1%	17.4%	20.3%	17.0%	16.5%	16.0%	17.3%	15.2%
Effective tax rate	0.0%	29.4%	30.9%	-92.4%	-69.5%	-10.7%	0.0%	0.0%	0.0%	0.0%	0.0%	33.0%
EBITDA, \$\$	1,091					279					418	1,345
EBITDA margin	6.5%					1.1%					1.2%	3.3%

\* 2006 results are shown pro forma as if the January 2007 reverse merger had occurred at the beginning of 2006.

\*\* 2007 results are shown pro forma for the calendar year, reflecting a combination of reported results for the Conmed predecessor for January 1 through January 26, 2007 and the Conmed successor for January 27 through December 31, 2007.

\*\*\* 2007 quarterly EPS figures do not sum due to the anti-dilutive effects of share issuances during the year.

Source: Company Reports and Crystal Equity Research Estimates

**Table X: Selected Specialty Healthcare Services Peers**

COMPANY	SYM	OPERATIONS	RECENT PRICE	TRLNG REV Min.	OPER MARGIN	DEBT / EQUITY	ROE	MARKET CAP Min.	PRICE/ SALES	PRICE/ CSH FLW	PRICE/ EARN	PRICE/ BK VAL
Unitedhealth Group	UNH	Primary care services; outpatient	\$22.96	\$76,690.0	10.4%	0.67	23.1%	\$28,210.0	0.4	7.9	6.7	1.6
Davita	DVA	Dialysis services; outpatient	\$52.75	\$5,330.0	16.0%	2.06	24.9%	\$5,520.0	1.1	10.3	14.2	3.2
Pediatrix Medical Group	PDX	Neonatal, pediatric & anesthesia physicians	\$49.22	\$952.3	24.7%	1.00	16.2%	\$2,320.0	2.4	12.1	13.4	2.5
Psychiatric Solutions	PSYS	Inpatient behavior health services	\$38.14	\$1,590.0	14.3%	1.67	11.8%	\$2,110.0	1.3	16.0	16.0	2.7
HealthSouth	HLS	Inpatient rehabilitation services	\$16.31	\$1,780.0	12.9%	NA	NA	\$1,290.0	0.7	4.7	27.2	NA
Hanger Orthopedic Group	HGR	Orthotic & prosthetic patient-care centers	\$15.86	\$651.2	10.7%	1.69	9.2%	\$364.1	0.6	8.7	18.0	2.0
IPC Hospitalist Company	IPCM	Physician group practice; inpatient care	\$19.39	\$205.9	7.5%	0.16	0.2%	\$288.3	1.4	NA	16.2	3.1
Virtual Radiologic	VRAD	Teleradiology services	\$13.03	\$91.5	11.5%	0.00	12.3%	\$217.7	2.4	24.6	10.9	4.2
Quantum Group	QGP	Community health systems; outpatient	\$1.25	\$10.5	-105.1%	0.30	NA	\$11.1	1.1	Neg	Neg	4.2
Continucare Corp.	CNU	Primary care physician services; outpatient	\$2.25	\$253.8	6.6%	0.00	10.1%	\$152.4	0.6	12.2	13.2	1.4
Metropolitan Health Networks	MDF	Provider service networks; primary care	\$1.79	\$285.5	3.0%	0.00	15.5%	\$92.9	0.3	7.1	Neg	2.4
Cornell Companies, Inc.	CRN	Corrections, rehabilitation & treatment	\$22.00	\$366.4	13.7%	1.41	8.1%	\$322.0	0.9	8.4	14.6	1.6
Geo Group, Inc.	GEO	Corrections; mental health treatment	\$23.05	\$1,060.0	9.2%	0.89	9.5%	\$1,180.0	1.1	18.6	15.2	2.2
Corrections Corp. of America	CXW	Correctional & detention facilities	\$23.57	\$1,520.0	18.0%	0.83	11.5%	\$3,320.0	2.2	12.8	17.7	2.7
America Service Group	ASGR	Correctional health care	\$9.02	\$496.7	0.4%	0.18	NA	\$84.1	0.2	8.8	34.0	2.0
Providence Service Corp.	PRSC	Social services for government agencies	\$20.20	\$398.4	7.9%	1.32	8.8%	\$246.2	0.6	8.4	10.6	1.3
		All Specialty Healthcare Group Members			3.9%	0.81	11.5%		1.1	11.5	16.3	2.5
		Corrections Group Members			9.8%	0.93	7.5%		1.0	11.4	18.4	2.0
<b>Conmed Healthcare Management, Inc.</b>	<b>CNHM</b>	<b>Correctional health care services</b>	<b>\$1.70</b>	<b>\$28.4</b>	<b>0.8%</b>	<b>0.00</b>	<b>NA</b>	<b>\$20.4</b>	<b>0.8</b>	<b>12.0</b>	<b>Neg</b>	<b>1.4</b>

Operating profit for Conmed is presented pro forma, excluding expenses for amortization of intangibles.

Source: Company Reports and Crystal Equity Research Estimates

## CRYSTAL EQUITY RESEARCH, LLC

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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.

## ANALYST CERTIFICATION

The analyst who is primarily responsible for this research and whose name is listed first under Analysts above certifies that: 1) all of the views expressed in this research accurately reflect his or her professional views about any and all of the subject securities or issuers, and 2) no part of any of the analyst's compensation was, is or will be directly or indirectly related to the specific rating expressed by analyst in this research.

## CER REPORT RESEARCH UNIVERSE\*

Speculative Buy	4	80%	Unproved business model; catalysts exist to generate higher returns
Accumulate	1	20%	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
<b>Total</b>	<b>5</b>	<b>100%</b>	

*\*Research universe categorized by rating only; Crystal Equity Research provides no investment banking services.*

## HISTORICAL RECOMMENDATIONS AND TARGET PRICE: Conmed Healthcare Management

<u>Report</u>	<u>Date</u>	<u>Price</u>	<u>Rating</u>	<u>Target Price</u>
Initial	7/7/08	\$1.70	Speculative Buy	\$4.50

**DISCLOSURES**

<u>Name</u>	<u>Symbol: Exchange</u>	<u>Disclosures</u>
Conmed Healthcare Management, Inc.	CMHM: OCT/BB	D

**Disclosure Key**

- A A member or employee of Crystal Equity Research, LLC serves on the board of directors of the company.
- B A controlling member of Crystal Equity Research, LLC has a beneficial interest in the common stock of the company.
- C A person or persons preparing this report or an immediate family member of the preparer has a beneficial interest in the common stock of the company.
- D Crystal Equity Research, LLC received compensation for research coverage from the company or one of its agents. Subscription fees for CER Research Coverage are paid in advance in cash.
- E The company has a convertible issue outstanding.
- F The securities covered in this report can be optioned.
- G The securities covered in this report can be margined.

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