CONMED CORP
Form 10-Q
October 28, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended September 30, 2013	Commission File Number 0-16093

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

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

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

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

Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer ý Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

The number of shares outstanding of registrant's common stock, as of October 22, 2013 is 27,614,196 shares.

CONMED CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2013

PART I FINANCIAL INFORMATION

Table of Contents

PART I FINANCIAL INFORMATION

Item 1.

CONMED CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, in thousands except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2013	2012	2013
Net sales	$181,885	$179,255	$565,896	$559,262
Cost of sales	83,972	83,831	267,340	258,240
Gross profit	97,913	95,424	298,556	301,022
Selling and administrative expense	74,064	73,476	222,577	228,375
Research and development expense	7,077	7,108	21,364	19,393
Medical device excise tax	—	1,427	—	4,413
Other expense	2,658	4,608	6,421	8,514
	83,799	86,619	250,362	260,695
Income from operations	14,114	8,805	48,194	40,327
Loss on early extinguishment of debt	—	—	—	263
Interest expense	1,345	1,382	4,333	4,131
Income before income taxes	12,769	7,423	43,861	35,933
Provision for income taxes	3,449	1,736	14,277	10,221
Net income	$9,320	$5,687	$29,584	$25,712
Comprehensive income	$10,197	$7,583	$28,929	$26,337
Per share data:				
Net income				
Basic	$0.33	$0.21	$1.05	$0.93
Diluted	0.32	0.20	1.03	0.91
Dividends per share of common stock	$0.15	$0.15	$0.45	$0.45
Weighted average common shares				

Basic	28,438	27,518	28,265	27,744
Diluted	28,721	27,834	28,621	28,111

See notes to consolidated condensed financial statements.

Table of Contents

CONMED CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited, in thousands except share and per share amounts)

	December 31, 2012	September 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$23,720	$49,831
Accounts receivable, net	139,124	130,589
Inventories	156,228	150,995
Income taxes receivable	2,897	3,388
Deferred income taxes	11,931	12,124
Prepaid expenses and other current assets	14,993	16,989
Total current assets	348,893	363,916
Property, plant and equipment, net	139,041	138,505
Deferred income taxes	1,057	1,183
Goodwill	248,502	248,502
Other intangible assets, net	334,185	322,698
Other assets	7,171	9,121
Total assets	$1,078,849	$1,083,925
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$1,050	$1,093
Accounts payable	23,622	27,236
Accrued compensation and benefits	33,511	26,149
Income taxes payable	2,706	311
Other current liabilities	64,325	46,090
Total current liabilities	125,214	100,879
Long-term debt	160,802	224,017
Deferred income taxes	99,199	107,187
Other long-term liabilities	86,636	59,610
Total liabilities	471,851	491,693
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value $ .01 per share; authorized 500,000 shares; none outstanding	—	—
Common stock, par value $ .01 per share; 100,000,000 shares authorized; 31,299,194 shares issued in 2012 and 2013, respectively	313	313
Paid-in capital	324,322	324,403
Retained earnings	377,907	391,179

Accumulated other comprehensive loss	(27,581)	(26,956)
Less: 2,925,801 and 3,716,981 shares of common stock in treasury, at cost in 2012 and 2013, respectively	(67,963)	(96,707)
Total shareholders' equity	606,998	592,232
Total liabilities and shareholders' equity	$1,078,849	$1,083,925

See notes to consolidated condensed financial statements.

Table of Contents

CONMED CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2012	2013
Cash flows from operating activities:		
Net income	$29,584	$25,712
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,018	13,701
Amortization	20,752	21,840
Stock-based compensation	4,115	4,102
Deferred income taxes	11,752	6,802
Loss on early extinguishment of debt	—	263
Increase (decrease) in cash flows from changes in assets and liabilities:		
Accounts receivable	6,910	8,811
Inventories	(2,436)	(5,581)
Accounts payable	1,693	2,019
Income taxes receivable (payable)	(7,996)	(3,262)
Accrued compensation and benefits	(5,235)	(7,352)
Other assets	(2,723)	(2,636)
Other liabilities	(9,171)	(10,781)
	31,679	27,926
Net cash provided by operating activities	61,263	53,638
Cash flows from investing activities:		
Purchases of property, plant and equipment	(15,969)	(13,552)
Payments related to distribution agreement	(82,843)	—
Net cash used in investing activities	(98,812)	(13,552)
Cash flows from financing activities:		
Net proceeds from common stock issued under employee plans	9,414	13,027
Repurchase of common stock	—	(44,729)
Payments on senior credit agreement	(53,588)	—
Proceeds from senior credit agreement	80,000	64,000
Payment related to distribution agreement	—	(34,000)
Payments on mortgage notes	(475)	(515)
Payment related to senior subordinated notes	—	(227)
Payments related to issuance of debt	—	(1,725)
Dividends paid on common stock	(8,590)	(12,568)
Other, net	5,533	2,975
Net cash provided by (used in) financing activities	32,294	(13,762)
Effect of exchange rate changes on cash and cash equivalents	(974)	(213)

Net increase (decrease) in cash and cash equivalents	(6,229)	26,111
Cash and cash equivalents at beginning of period	26,048	23,720
Cash and cash equivalents at end of period	$19,819	$49,831
Non-cash financing activities:		
Dividends payable	$4,272	$4,128

See notes to consolidated condensed financial statements.

Table of Contents

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

Note 1 – Operations

CONMED Corporation ("CONMED", the "Company", "we" or "us") is a medical technology company with an emphasis on surgical devices and equipment for minimally invasive procedures and monitoring. The Company's products are used by surgeons and physicians in a variety of specialties including orthopedics, general surgery, gynecology, neurosurgery and gastroenterology.

Note 2 - Interim Financial Information

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. Results for the period ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The consolidated condensed financial statements and notes thereto should be read in conjunction with the financial statements and notes for the year ended December 31, 2012 included in our Annual Report on Form 10-K.

Income taxes receivable and income taxes payable at December 31, 2012 have been revised to conform to the current year presentation.

We have reclassified the promotional, marketing and distribution rights totaling $143.6 million at December 31, 2012 from Other Assets to Other Intangible Assets to conform to current year presentation.

Note 3 – Comprehensive Income

Comprehensive income consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2013	2012	2013
Net income	$9,320	$5,687	$29,584	$25,712
Other comprehensive income:				
Pension liability, net of income tax	450	461	1,373	1,383
Cash flow hedging gain (loss), net of income tax	(1,607)	(2,410)	(2,876)	96
Foreign currency translation adjustment	2,034	3,845	848	(854)
Comprehensive income	$10,197	$7,583	$28,929	$26,337

4

Table of Contents

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

	Cash Flow Hedging Gain (Loss)[a]	Pension Liability[a]	Cumulative Translation Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2012	$(1,130)	$(30,375)	$3,924	$(27,581)
Other comprehensive income before reclassifications	675	—	(854)	(179)
Amounts reclassified from accumulated other comprehensive income[b]	(579)	1,383	—	804
Net current-period other comprehensive income	96	1,383	(854)	625
Balance, September 30, 2013	$(1,034)	$(28,992)	$3,070	$(26,956)

(a) All amounts are net of tax.
(b) The cash flow hedging gain (loss) and pension liability accumulated other comprehensive income components are included in sales or cost of sales and as a component of net periodic pension cost, respectively. The amounts recorded in the chart above are for the nine months ended September 30, 2013. For the three months ended September 30, 2013, $0.1 million of the cash flow hedging gain and $0.5 million of the pension liability were reclassified from accumulated other comprehensive income to the statement of income. Refer to Note 4 and Note 9, respectively, for further details.

Note 4 – Fair Value of Financial Instruments

We enter into derivative instruments for risk management purposes only. We operate internationally and, in the normal course of business, are exposed to fluctuations in interest rates, foreign exchange rates and commodity prices. These fluctuations can increase the costs of financing, investing and operating the business. We use forward contracts, a type of derivative instrument, to manage certain foreign currency exposures.

By nature, all financial instruments involve market and credit risks. We enter into forward contracts with major investment grade financial institutions and have policies to monitor the credit risk of those counterparties. While there can be no assurance, we do not anticipate any material non-performance by any of these counterparties.

Foreign Currency Forward Contracts. We hedge certain forecasted intercompany transactions denominated in foreign currencies through the use of forward contracts. We account for these forward contracts as cash flow hedges. To the extent these forward contracts meet hedge accounting criteria, changes in their fair value are not included in current earnings but are included in accumulated other comprehensive loss. These changes in fair value will be recognized into earnings as a component of sales or cost of sales when the forecasted transaction occurs. The notional contract amounts for forward contracts outstanding at September 30, 2013 which have been accounted for as cash flow hedges totaled $162.2 million. Net realized gains recognized for forward contracts accounted for as cash flow hedges approximated $1.0 million and $0.1 million for the three months ended September 30, 2012 and 2013, respectively, and $3.2 million and $0.6 million for the nine months ended September 30, 2012 and 2013, respectively. Net unrealized losses on forward contracts outstanding, net of tax, which have been accounted for as cash flow hedges and

which have been included in other comprehensive income, totaled $1.0 million at September 30, 2013. It is expected these unrealized losses will be recognized in the consolidated statements of comprehensive income in 2013 and 2014.

We also enter into forward contracts to exchange foreign currencies for United States dollars in order to hedge our currency transaction exposures on intercompany receivables denominated in foreign currencies. These forward contracts settle each month at month-end, at which time we enter into new forward contracts. We have not designated these forward contracts as hedges and have not applied hedge accounting to them. The notional contract amounts for forward contracts outstanding at September 30, 2013 which have not been designated as hedges totaled $41.1 million. Net realized losses recognized in connection with those forward contracts not accounted for as hedges approximated $(1.2) million and $(1.1) million for the three months ended September 30, 2012 and 2013, respectively, offsetting gains on our intercompany receivables of $1.0 million and $0.9 million for the three months ended September 30, 2012 and 2013, respectively. Net realized losses recognized in connection with those forward contracts not accounted for as hedges approximated $(1.6) million and $(0.3) million for the nine months ended September 30, 2012 and 2013, respectively, offsetting gains (losses) on our intercompany receivables of $0.7 million and $(0.7) million for the

Table of Contents

nine months ended September 30, 2012 and 2013, respectively. These gains and losses have been recorded in selling and administrative expense in the consolidated statements of operations.

We record these forward foreign exchange contracts at fair value; the following tables summarize the fair value for forward foreign exchange contracts outstanding at December 31, 2012 and September 30, 2013:

December 31, 2012	Asset Balance Sheet Location	Fair Value	Liabilities Balance Sheet Location	Fair Value	Net Fair Value
Derivatives designated as hedged instruments:					
Foreign exchange contracts	Other current liabilities	$(457)	Other current liabilities	$2,249	$1,792
Derivatives not designated as hedging instruments:					
Foreign exchange contracts	Other current liabilities	—	Other current liabilities	150	150
Total derivatives		$(457)		$2,399	$1,942

September 30, 2013	Asset Balance Sheet Location	Fair Value	Liabilities Balance Sheet Location	Fair Value	Net Fair Value
Derivatives designated as hedged instruments:					
Foreign exchange contracts	Other current liabilities	$(716)	Other current liabilities	$2,356	$1,640
Derivatives not designated as hedging instruments:					
Foreign exchange contracts	Other current liabilities	(9)	Other current liabilities	33	24
Total derivatives		$(725)		$2,389	$1,664

Our forward foreign exchange contracts are subject to a master netting agreement and qualify for netting in the consolidated balance sheets. Accordingly, at December 31, 2012 and September 30, 2013 we have recorded the net fair value of $1.9 million and $1.7 million, respectively, in other current liabilities.

Fair Value Disclosure. Financial Accounting Standards Board (“FASB”) guidance defines fair value and establishes a framework for measuring fair value and related disclosure requirements. This guidance applies when fair value measurements are required or permitted. The guidance indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. Fair value is defined

based upon an exit price model.

As of September 30, 2013, we do not have any significant non-recurring measurements of non-financial assets and non-financial liabilities.

Table of Contents

Valuation Hierarchy. A valuation hierarchy was established for disclosure of the inputs to the valuations used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from or corroborated by observable market data through correlation. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Valuation Techniques. Assets and liabilities carried at fair value and measured on a recurring basis as of September 30, 2013 consist of forward foreign exchange contracts. The Company values its forward foreign exchange contracts using quoted prices for similar assets. The most significant assumption is quoted currency rates. The value of the forward foreign exchange contract assets and liabilities were determined within Level 2 of the valuation hierarchy and are listed in the table above.

The carrying amounts reported in our balance sheets for cash and cash equivalents, accounts receivable, accounts payable and long-term debt approximate fair value.

Note 5 - Inventories

Inventories consist of the following:

	December 31, 2012	September 30, 2013
Raw materials	$45,115	$41,697
Work-in-process	14,229	16,198
Finished goods	96,884	93,100
Total	$156,228	$150,995

Note 6 – Earnings Per Share

Basic earnings per share ("basic EPS") is computed by dividing net income by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share ("diluted EPS") gives effect to all dilutive potential shares outstanding resulting from employee stock options, restricted stock units, performance share units and stock appreciation rights ("SARs") during the period. The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2012 and 2013.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2013	2012	2013
Net income	$9,320	$5,687	$29,584	$25,712
Basic – weighted average shares outstanding	28,438	27,518	28,265	27,744
Effect of dilutive potential securities	283	316	356	367
Diluted – weighted average shares outstanding	28,721	27,834	28,621	28,111

Net income				
Basic (per share)	$0.33	$0.21	$1.05	$0.93
Diluted (per share)	$0.32	$0.20	$1.03	$0.91

Table of Contents

The shares used in the calculation of diluted EPS exclude options and SARs to purchase shares where the exercise price was greater than the average market price of common shares for the period. Shares excluded from the calculation of diluted EPS aggregated 0.4 million and 0.0 million for the three months ended September 30, 2012 and 2013, respectively. Shares excluded from the calculation of diluted EPS aggregated 0.4 million and 0.0 million for the nine months ended September 30, 2012 and 2013, respectively.

Note 7 – Goodwill and Other Intangible Assets

The changes in the net carrying amount of goodwill for the nine months ended September 30, 2013 are as follows:

Balance as of December 31, 2012, as reported	$256,821
Reduction in goodwill resulting from a business acquisition purchase price allocation adjustment	(8,319)
Balance as of December 31, 2012, as revised, and September 30, 2013	$248,502

During 2013, we finalized the allocation of purchase price related to our acquisition of Viking Systems, Inc.. We recorded a deferred tax asset of $8.3 million relating to the acquired net operating losses, which resulted in a corresponding reduction to goodwill. There have been no other changes in the consideration paid, working capital, or other acquired assets and liabilities, other than those described above, since December 31, 2012.

Other intangible assets consist of the following:

	December 31, 2012		September 30, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	$135,690	$(50,083)	$135,690	$(53,815)
Promotional, marketing & distribution rights	149,376	(6,000)	149,376	(10,500)
Patents and other intangible assets	54,412	(37,554)	52,005	(38,402)
Unamortized intangible assets:				
Trademarks and tradenames	88,344	—	88,344	—
	$427,822	$(93,637)	$425,415	$(102,717)

Customer relationships, trademarks, tradenames, patents and other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. Promotional, marketing and distribution rights represent intangible assets created under our Sports Medicine Joint Development and Distribution Agreement (the "JDDA") with Musculoskeletal Transplant Foundation (“MTF”).

On January 3, 2012, the Company entered into the JDDA with MTF to obtain MTF's worldwide promotion rights with respect to allograft tissues within the field of sports medicine and related products. The initial consideration from the

Company included a $63.0 million up-front payment for the rights and certain assets, with an additional $84.0 million contingently payable over a four year period depending on MTF meeting supply targets for tissue. On January 3, 2013, we paid $34.0 million of the additional consideration; $16.7 million of the additional consideration is due within the next fiscal year with the remainder due

Table of Contents

in equal installments in each year thereafter. The $50.0 million related to the remaining contingent obligation is accrued in other current and other long term liabilities as we believe it is probable MTF will meet the supply targets.

Amortization expense related to intangible assets which are subject to amortization totaled $3,429 and $10,291 in the three and nine months ended September 30, 2012 and $3,353 and $9,080 in the three and nine months ended September 30, 2013, respectively, and is included as a reduction of revenue (for amortization related to our promotional, marketing and distribution rights) and in selling and administrative expense (for all other intangible assets) on the consolidated condensed statements of comprehensive income. The weighted average amortization period for intangible assets which are amortized is 27 years. Customer relationships are being amortized over a weighted average life of 33 years. Promotional, marketing and distribution rights are being amortized over a weighted average life of 25 years. Patents and other intangible assets are being amortized over a weighted average life of 15 years.

The estimated intangible asset amortization expense for the year ending December 31, 2013, including the nine month period ended September 30, 2013 and for each of the five succeeding years is as follows:

	Amortization included in expense	Amortization recorded as a reduction of revenue	Total
2013	$7,409	$6,000	$13,409
2014	7,006	6,000	13,006
2015	6,618	6,000	12,618
2016	6,515	6,000	12,515
2017	6,503	6,000	12,503
2018	6,446	6,000	12,446

Note 8 – Guarantees

We provide warranties on certain of our products at the time of sale. The standard warranty period for our capital and reusable equipment is generally one year. Liability under service and warranty policies is based upon a review of historical warranty and service claim experience. Adjustments are made to accruals as claim data and historical experience warrant.

Changes in the carrying amount of service and product warranties for the nine months ended September 30, are as follows:

	2012	2013
Balance as of January 1,	$3,618	$3,636
Provision for warranties	3,136	2,310
Claims made	(3,093)	(2,927)
Balance as of September 30,	$3,661	$3,019

Note 9 – Pension Plan

Net periodic pension costs consist of the following:

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2013	2012	2013
Service cost	$65	$69	$195	$208
Interest cost on projected benefit obligation	860	785	2,579	2,356
Expected return on plan assets	(1,131)	(1,302)	(3,394)	(3,907)
Net amortization and deferral	731	732	2,195	2,195
Net periodic pension cost	$525	$284	$1,575	$852

We contributed $7.5 million during the first quarter of 2013 related to the 2013 plan year. We do not expect to make any further contributions during 2013.

Note 10 – Other Expense

Other expense consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2013	2012	2013
Administrative consolidation costs	$1,940	$3,133	$3,444	$6,303
Costs associated with legal arbitration and patent dispute	—	1,475	1,555	2,211
Costs associated with purchase of a distributor	—	—	704	—
Costs associated with purchase of a business	718	—	718	—
Other expense	$2,658	$4,608	$6,421	$8,514

During 2012 and 2013, we restructured certain administrative functions. For the three and nine months ended September 30, 2012 we incurred $1.9 million and $3.4 million, respectively, in related costs and for the three and nine months ended September 30, 2013 we incurred $3.1 million and $6.3 million, respectively, in related costs consisting principally of severance charges and the write-off of certain patents.

During 2012, we incurred legal costs related to a contractual dispute with a former distributor. The dispute was resolved in the second quarter of 2012. For the nine months ended September 30, 2012, we incurred costs totaling $1.6 million.

During the third quarter of 2012, we incurred $0.7 million in costs related to the acquisition of Viking Systems Inc..

During the nine months ended September 30, 2012, we incurred $0.7 million in costs associated with the purchase of the Company's former distributor in the Nordic region of Europe.

During the three and nine months ended September 30, 2013, we incurred $1.5 million and $2.2 million, respectively, in legal costs associated with a patent infringement claim as further described in Note 12.

Note 11 — Business Segments

During 2011 and 2012, we undertook a variety of restructuring initiatives aimed at improving efficiency and internal effectiveness. These initiatives included changes in management lines of reporting and culminated in the implementation of a functional organizational structure. Under the new structure, we are now organized by function rather than by operating segment. Executives reporting in to the CEO include those responsible for operations and supply chain management, research and development, sales, marketing and certain corporate functions. Our chief operating decision maker (the CEO) evaluates the various

Table of Contents

global product portfolios on a net sales basis and evaluates profitability, investment and cash flow metrics on a consolidated worldwide basis due to shared infrastructure and resources. As a result, we have discontinued accounting and reporting for our businesses as five separate, operating segments. Effective January 1, 2013, we are accounting and reporting for our business as a single segment entity engaged in the development, manufacturing and sale on a global basis of surgical devices and related equipment.

As part of this reporting structure change, we also restructured our product lines. Orthopedic surgery consists of sports medicine instrumentation and small bone, large bone and specialty powered surgical instruments. General surgery consists of a complete line of endo-mechanical instrumentation for minimally invasive laparoscopic and gastrointestinal procedures, a line of cardiac monitoring products as well as electrosurgical generators and related instruments. Surgical visualization consists of 2D and 3D video systems for use in orthopedic and general surgery. These product lines' net sales are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2013	2012	2013
Orthopedic surgery	$96,164	$95,559	$306,887	$302,427
General surgery	69,216	69,886	210,260	209,918
Surgical visualization	16,505	13,810	48,749	46,917
Consolidated net sales	$181,885	$179,255	$565,896	$559,262

Note 12 – Legal Proceedings

From time to time, we are a defendant in certain lawsuits alleging product liability, patent infringement, or other claims incurred in the ordinary course of business. Likewise, from time to time, the Company may receive a subpoena from a government agency such as the Securities and Exchange Commission, Equal Employment Opportunity Commission, the Occupational Safety and Health Administration, the Department of Labor, the Treasury Department, or other federal and state agencies or foreign governments or government agencies. These subpoenas may or may not be routine inquiries, or may begin as routine inquiries and over time develop into enforcement actions of various types. The product liability claims are generally covered by various insurance policies, subject to certain deductible amounts, maximum policy limits and certain exclusions in the respective policies or as required as a matter of law. In some cases we may be entitled to indemnification by third parties. We establish reserves sufficient to cover probable losses associated with claims. We do not expect that the resolution of any pending claims or investigations will have a material adverse effect on our financial condition, results of operations or cash flows. There can be no assurance, however, that future claims or investigations, or the costs associated with responding to such claims or investigations, especially claims and investigations not covered by insurance, will not have a material adverse effect on our financial condition, results of operations or cash flows.

Manufacturers of medical products may face exposure to significant product liability claims. To date, we have not experienced any product liability claims that have been material to our financial statements or condition, but any such claims arising in the future could have a material adverse effect on our business or results of operations. We currently maintain commercial product liability insurance of $25 million per incident and $25 million in the aggregate annually, which we believe is adequate. This coverage is on a claims-made basis. There can be no assurance that claims will not exceed insurance coverage, that the carriers will be solvent or that such insurance will be available to us in the future at a reasonable cost.

Our operations are subject, and in the past have been subject, to a number of environmental laws and regulations governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous

substances and wastes, soil and groundwater remediation and employee health and safety. In some jurisdictions environmental requirements may be expected to become more stringent in the future. In the United States certain environmental laws can impose liability for the entire cost of site restoration upon each of the parties that may have contributed to conditions at the site regardless of fault or the lawfulness of the party's activities. While we do not believe that the present costs of environmental compliance and remediation are material, there can be no assurance that future compliance or remedial obligations would not have a material adverse effect on our financial condition, results of operations or cash flows.

In September 2012, Bonutti Skeletal Innovations, LLC filed a complaint in the United States District Court for the Middle District of Florida against CONMED and certain of its subsidiaries. The Complaint asserts that select CONMED products infringe patents allegedly owned by Bonutti Skeletal Innovations. On the same day that it sued CONMED, Bonutti Skeletal Innovations

Table of Contents

sued several other orthopedic companies. The Company believes that the products in question do not infringe the patents-in-suit and intends to vigorously defend the claims. A range of potential losses cannot be estimated at this time.

Note 13 – New Accounting Pronouncements

In February 2013, the FASB issued Accounting Standards Update, Comprehensive Income (Topic 220): Presentation of Items Reclassified out of Accumulated Other Comprehensive Income. This guidance requires enhanced disclosures relating to reclassifications out of accumulated other comprehensive income. This guidance is effective for interim and annual periods beginning after December 15, 2012. The implementation of this new guidance did not have a material impact on our consolidated financial statements.

Effective January 2013, Accounting Standards Update 2011-11: Disclosures about Offsetting Assets and Liabilities, requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The adoption of this guidance did not have a material impact on the financial statements.

Note 14 – Restructuring

We incurred the following restructuring costs:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2013	2012	2013
Facility consolidation costs	$1,843	$1,124	$4,519	$4,352
Termination of a product offering	—	2,137	—	2,137
Restructuring costs included in cost of sales	$1,843	$3,261	$4,519	$6,489
Restructuring costs included in other expense	$1,940	$3,133	$3,444	$6,303

During 2012 and 2013, we continued our operational restructuring plan which includes the transfer of additional production lines from manufacturing facilities located in the United States to our manufacturing facility in Chihuahua, Mexico and the consolidation of our Finland operations into our Largo, Florida and Utica, New York manufacturing facilities. During the first quarter of 2013, we began the consolidation of our Westborough, Massachusetts operations into our Largo, Florida and Chihuahua, Mexico facilities. We incurred $1.8 million and $4.5 million in costs associated with the restructuring during the three and nine months ended September 30, 2012, respectively, and incurred $1.1 million and $4.4 million in costs associated with restructuring during the three and nine months ended September 30, 2013, respectively. These costs were charged to cost of goods sold and include severance and other charges associated with the transfer of production to Mexico and consolidation of our Finland and Westborough, Massachusetts operations.

As part of our ongoing restructuring, the Company discontinued a patient monitoring product offering and incurred $2.1 million in costs which were charged to cost of goods sold during the three and nine months ended September 30, 2013.

Restructuring costs included in other expense are described more fully in Note 10.

We have recorded an accrual in current liabilities of $3.7 million at September 30, 2013 mainly related to severance and lease impairment costs associated with the restructuring. Below is a rollforward of the accrual:

Table of Contents

Balance as of January 1, 2013	$4,120
Expenses incurred	2,965
Payments made	(3,339)
Balance at September 30, 2013	$3,746

Note 15 - Amended and Restated Senior Credit Agreement

On January 17, 2013, we entered into an amended and restated $350.0 million senior credit agreement (the "amended and restated senior credit agreement"). The amended and restated senior credit agreement consists of a $350.0 million revolving credit facility expiring on January 17, 2018. The amended and restated senior credit agreement was used to repay borrowings outstanding on the revolving credit facility under the then existing senior credit agreement. In connection with the refinancing, we recorded a $0.3 million loss on the early extinguishment of debt related to the write-off of unamortized deferred financing costs under the previously existing senior credit agreement. Initial interest rates are at LIBOR plus 1.50% (1.70% at September 30, 2013) or an alternative base rate. For those borrowings where the Company elects to use the alternative base rate, the base rate will be the greater of the Prime Rate, the Federal Funds Rate in effect on such date plus 0.50%, or the one month Eurocurrency rate plus 1%, plus an additional margin of 0.50%.

Table of Contents

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

Forward-Looking Statements

In this Report on Form 10-Q, we make forward-looking statements about our financial condition, results of operations and business. Forward-looking statements are statements made by us concerning events that may or may not occur in the future. These statements may be made directly in this document or may be "incorporated by reference" from other documents. Such statements may be identified by the use of words such as "anticipates", "expects", "estimates", "intends" and "believes" and variations thereof and other terms of similar meaning.

Forward-Looking Statements are not Guarantees of Future Performance

Forward-looking statements involve known and unknown risks, uncertainties and other factors, including those that may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include those identified under "Risk Factors" in our Annual Report on Form 10-K for the year-ended December 31, 2012 and the following, among others:

- general economic and business conditions;
- changes in foreign exchange and interest rates;
- cyclical customer purchasing patterns due to budgetary and other constraints;
- changes in customer preferences;
- competition;
- changes in technology;
- the introduction and acceptance of new products;
- the ability to evaluate, finance and integrate acquired businesses, products and companies;
- changes in business strategy;
- the availability and cost of materials;
- the possibility that United States or foreign regulatory and/or administrative agencies may initiate enforcement actions against us or our distributors;
- future levels of indebtedness and capital spending;
- quality of our management and business abilities and the judgment of our personnel;
- the availability, terms and deployment of capital;
- the risk of litigation, especially patent litigation as well as the cost associated with patent and other litigation;
- the risk of a lack of allograft tissue due to reduced donations of such tissues or due to tissues not meeting the appropriate high standards for screening and/or processing of such tissues; and
- changes in regulatory requirements.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" below and "Risk Factors" and "Business" in our Annual Report on Form 10-K for the year-ended December 31, 2012 for a further discussion of these factors. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

Overview:

CONMED Corporation (“CONMED”, the “Company”, “we” or “us”) is a medical technology company with an emphasis on surgical devices and equipment for minimally invasive procedures and monitoring. The Company’s products are used by surgeons and physicians in a variety of specialties including orthopedics, general surgery, gynecology, neurosurgery and gastroenterology.

During 2011 and 2012, we undertook a variety of restructuring initiatives aimed at improving efficiency and internal effectiveness. These initiatives included changes in management lines of reporting and culminated in the implementation of a

Table of Contents

functional organizational structure. Under the new structure, we are now organized by function rather than by operating segment. Executives reporting in to the CEO include those responsible for operations and supply chain management, research and development, sales, marketing and certain corporate functions. Our chief operating decision maker (the CEO) evaluates the various global product portfolios on a net sales basis and evaluates profitability, investment and cash flow metrics on a consolidated worldwide basis due to shared infrastructure and resources. As a result, we have discontinued accounting and reporting for our businesses as five separate, operating segments. Effective January 1, 2013, we are accounting and reporting for our business as a single segment entity engaged in the development, manufacturing and sale on a global basis of surgical devices and related equipment.

As part of this reporting structure change, we also restructured our product lines. Orthopedic surgery consists of sports medicine instrumentation and small bone, large bone and specialty powered surgical instruments. General surgery consists of a complete line of endo-mechanical instrumentation for minimally invasive laparoscopic and gastrointestinal procedures, a line of cardiac monitoring products as well as electrosurgical generators and related instruments. Surgical visualization consists of 2D and 3D video systems for use in orthopedic and general surgery. These product lines as a percentage of consolidated net sales are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2013	2012	2013
Orthopedic surgery	52.9 %	53.3 %	54.2 %	54.1 %
General surgery	38.0 %	39.0 %	37.2 %	37.5 %
Surgical visualization	9.1 %	7.7 %	8.6 %	8.4 %
Consolidated net sales	100.0 %	100.0 %	100.0 %	100.0 %

A significant amount of our products are used in surgical procedures with the majority of our revenues derived from the sale of single-use products. We manufacture substantially all of our products in facilities located in the United States and Mexico. We market our products both domestically and internationally directly to customers and through distributors. International sales represent a significant portion of our business. During the three and nine months ended September 30, 2013 international sales approximated 50.3% and 50.9%, respectively, of total net sales.

Business Environment and Opportunities

The aging of the worldwide population along with lifestyle changes, continued cost containment pressures on healthcare systems and the desire of clinicians and administrators to use less invasive (or noninvasive) procedures are important trends which are driving the long-term growth in our industry. We believe that with our broad product offering of high quality surgical and patient care products, we can capitalize on this growth for the benefit of the Company and our shareholders.

In order to further our growth prospects, we have historically used strategic business acquisitions and exclusive distribution relationships to continue to diversify our product offerings, increase our market share and realize economies of scale.

We have a variety of research and development initiatives focused in each of our principal product lines as continued innovation and commercialization of new proprietary products and processes are essential elements of our long-term growth strategy. Our reputation as an innovator is exemplified by recent new product introductions such as the Genesys PressFT™ biocomposite Suture Anchor, a bioabsorbable anchor for use in arthroscopic stabilization procedures of the shoulder and labral repair of the hip; Y-Knot™ All-suture Anchor, a suture anchor implant comprised entirely of high strength suture for instability repair procedures in the shoulder and hip as well as for small joint repairs in the

extremities; M-Class Blades, our new line of large bone blades that are engineered with beveled center teeth, course middle teeth and fine outer teeth that work together to provide optimal blade control and a more even cut; DetachaTip® III with a new composite shaft and internal ratcheting mechanism provides a more ergonomic, more reliable, safer alternative for Endoscopic manual instruments; Hip Preservation System™, from access to repair, the system is committed to optimizing patient outcomes by providing a comprehensive solution of joint preserving instrumentation and techniques; the Hall® Surgical Lithium Power Battery System offers lithium-ion battery technology which will provide greater power and longevity during surgery when compared to present batteries and the Altrus® Thermal Tissue Fusion System which utilizes thermal energy to seal, cut, grasp, and dissect vessels up to 7mm in size utilizing a closed feedback loop between the energy source and the single-use handpiece to precisely control the desired effect on tissue.

Table of Contents

Business Challenges

Significant volatility in the financial markets and foreign currency exchange rates as well as depressed economic conditions in both domestic and international markets, have presented significant business challenges since the second half of 2008. While we returned to revenue growth in 2010, 2011 and 2012, we experienced a sales decline in the first nine months of 2013. We are cautiously optimistic that the domestic economic environment is improving, however conditions in Europe and elsewhere may present significant business challenges for the Company. While there can be no assurance that improvement in the overall economic environment will be sustained, we will continue to monitor and manage the impact of the overall economic environment on the Company.

Over the past few years we successfully completed certain of our operational restructuring plans whereby we consolidated manufacturing and distribution centers as well as restructured certain of our administrative functions. We continue to restructure both operations and administrative functions as necessary throughout the organization. However, we cannot be certain such activities will be completed in the estimated time period or that planned cost savings will be achieved.

Our facilities are subject to periodic inspection by the United States Food and Drug Administration (“FDA”) and foreign regulatory agencies or notified bodies for, among other things, conformance to Quality System Regulation and Current Good Manufacturing Practice (“CGMP”) requirements and foreign or international standards. We are committed to the principles and strategies of systems-based quality management for improved CGMP compliance, operational performance and efficiencies through our Company-wide quality systems initiatives. However, there can be no assurance that our actions will ensure that we will not receive a warning letter or be the subject of other regulatory action, which may include consent decrees or fines, that we will not conduct product recalls or that we will not experience temporary or extended periods during which we may not be able to sell products in foreign countries.

Critical Accounting Policies

Preparation of our financial statements requires us to make estimates and assumptions which affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the consolidated financial statements in our Annual Report on Form 10-K for the year-ended December 31, 2012 describes significant accounting policies used in preparation of the consolidated financial statements. The most significant areas involving management judgments and estimates are described below and are considered by management to be critical to understanding the financial condition and results of operations of CONMED Corporation. There have been no significant changes in our critical accounting estimates during the nine months ended September 30, 2013.

Revenue Recognition

Revenue is recognized when title has been transferred to the customer which is at the time of shipment. The following policies apply to our major categories of revenue transactions:

- Sales to customers are evidenced by firm purchase orders. Title and the risks and rewards of ownership are transferred to the customer when product is shipped under our stated shipping terms. Payment by the customer is due under fixed payment terms and collectability is reasonably assured.

- We place certain of our capital equipment with customers on a loaned basis in return for commitments to purchase related single-use products over time periods generally ranging from one to three years. In these circumstances, no revenue is recognized upon capital equipment shipment as the equipment is loaned and subject to return if certain minimum single-use purchases are not met. Revenue is recognized upon the sale and shipment of the related single-use products. The cost of the equipment is amortized over its estimated useful life.

- We recognize revenues related to the promotion and marketing of sports medicine allograft tissue in accordance with the contractual terms of our agreement with Musculoskeletal Transplant Foundation ("MTF") on a net basis as our role is limited to that of an agent earning a commission or fee. MTF records revenue when the tissue is shipped to the customer. Our services are completed at this time and net revenues for the "Service Fee" for our promotional and marketing efforts are then recognized based on a percentage of the net amounts billed by MTF to its customers. The timing of revenue recognition is determined through review of the net billings made by MTF each month. Our net commission Service Fee is based on the contractual terms of our agreement and is currently 50%. This percentage can vary over the term of the agreement but is contractually determinable. Our Service Fee revenues are recorded net of amortization of the acquired assets, which are being expensed over the expected useful life of 25 years.

Table of Contents

- Product returns are only accepted at the discretion of the Company and in accordance with our “Returned Goods Policy”. Historically the level of product returns has not been significant. We accrue for sales returns, rebates and allowances based upon an analysis of historical customer returns and credits, rebates, discounts and current market conditions.

- Our terms of sale to customers generally do not include any obligations to perform future services. Limited warranties are provided for capital equipment sales and provisions for warranty are provided at the time of product sale based upon an analysis of historical data.

- Amounts billed to customers related to shipping and handling have been included in net sales. Shipping and handling costs are included in selling and administrative expense.

- We sell to a diversified base of customers around the world and, therefore, believe there is no material concentration of credit risk.

- We assess the risk of loss on accounts receivable and adjust the allowance for doubtful accounts based on this risk assessment. Historically, losses on accounts receivable have not been material. Management believes that the allowance for doubtful accounts of $1.9 million at September 30, 2013 is adequate to provide for probable losses resulting from accounts receivable.

Inventory Valuation

We write-off excess and obsolete inventory resulting from the inability to sell our products at prices in excess of current carrying costs. The markets in which we operate are highly competitive, with new products and surgical procedures introduced on an on-going basis. Such marketplace changes may result in our products becoming obsolete. We make estimates regarding the future recoverability of the costs of our products and record a provision for excess and obsolete inventories based on historical experience, expiration of sterilization dates and expected future trends. If actual product life cycles, product demand or acceptance of new product introductions are less favorable than projected by management, additional inventory write-downs may be required.

Goodwill and Intangible Assets

We have a history of growth through acquisitions. Assets and liabilities of acquired businesses are recorded at their estimated fair values as of the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Effective January 1, 2013, we are accounting and reporting for our business as a single operating segment, and goodwill as a single reporting unit. Changes in our structure are further discussed in Note 11 to the Consolidated Condensed Financial Statements. Customer relationships, trademarks, tradenames, patents, and other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. Promotional, marketing and distribution rights represent intangible assets created under our Sports Medicine Joint Development and Distribution Agreement (the "JDDA") with Musculoskeletal Transplant Foundation (“MTF”). We have accumulated goodwill of $248.5 million and other intangible assets of $322.7 million as of September 30, 2013.

In accordance with FASB guidance, goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to at least annual impairment testing. It is our policy to perform our annual impairment testing in the fourth quarter. The identification and measurement of goodwill impairment involves the estimation of the fair value of our business. Estimates of fair value are based on the best information available as of the date of the assessment, which primarily incorporate management assumptions about expected future cash flows and other valuation techniques. Future cash flows may be affected by changes in industry or market conditions or the rate and extent to

which anticipated synergies or cost savings are realized with newly acquired entities. During 2012, we completed our goodwill impairment testing with data as of October 1, 2012. We adopted the Step 0 qualitative impairment test in accordance with ASC 350 whereby we assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Based upon our qualitative assessment, we believe the fair value continues to exceed carrying value by a substantial margin.

Intangible assets with a finite life are amortized over the estimated useful life of the asset and are evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The carrying amount of an intangible asset subject to amortization is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset. An impairment loss is recognized by reducing the carrying amount of the intangible asset to its current fair value.

Table of Contents

Customer relationship assets arose principally as a result of the 1997 acquisition of Linvatec Corporation. These assets represent the acquisition date fair value of existing customer relationships based on the after-tax income expected to be derived during their estimated remaining useful life. The useful lives of these customer relationships were not and are not limited by contract or any economic, regulatory or other known factors. The estimated useful life of the Linvatec customer relationship assets was determined as of the date of acquisition as a result of a study of the observed pattern of historical revenue attrition during the 5 years immediately preceding the acquisition of Linvatec Corporation. This observed attrition pattern was then applied to the existing customer relationships to derive the future expected retirement of the customer relationships. This analysis indicated an annual attrition rate of 2.6%. Assuming an exponential attrition pattern, this equated to an average remaining useful life of approximately 38 years for the Linvatec customer relationship assets. Customer relationship intangible assets arising as a result of other business acquisitions are being amortized over a weighted average life of 15 years. The weighted average life for customer relationship assets in aggregate is 33 years.

We evaluate the remaining useful life of our customer relationship intangible assets each reporting period in order to determine whether events and circumstances warrant a revision to the remaining period of amortization. In order to further evaluate the remaining useful life of our customer relationship intangible assets, we perform an analysis and assessment of actual customer attrition and activity as events and circumstances warrant. This assessment includes a comparison of customer activity since the acquisition date and review of customer attrition rates. In the event that our analysis of actual customer attrition rates indicates a level of attrition that is in excess of that which was originally contemplated, we would change the estimated useful life of the related customer relationship asset with the remaining carrying amount amortized prospectively over the revised remaining useful life.

We test our customer relationship assets for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Factors specific to our customer relationship assets which might lead to an impairment charge include a significant increase in the annual customer attrition rate or otherwise significant loss of customers, significant decreases in sales or current-period operating or cash flow losses or a projection or forecast of losses. We do not believe that there have been events or changes in circumstances which would indicate the carrying amount of our customer relationship assets might not be recoverable.

For all other indefinite lived intangible assets, we perform a Step 0 qualitative impairment test in accordance with ASC 350. Based upon this assessment, we have determined that it is unlikely that our indefinite lived intangible assets are impaired.

Pension Plan

We sponsor a defined benefit pension plan (“the plan”) that covered substantially all our United States-based employees. The plan was frozen as of May 14, 2009. Major assumptions used in accounting for the plan include the discount rate, expected return on plan assets and expected mortality. Assumptions are determined based on Company data and appropriate market indicators, and are evaluated annually as of the plan’s measurement date. A change in any of these assumptions would have an effect on net periodic pension costs reported in the consolidated financial statements.

The weighted-average discount rate used to measure pension liabilities and costs is set by reference to the Citigroup Pension Liability Index. However, this index gives only an indication of the appropriate discount rate because the cash flows of the bonds comprising the index do not precisely match the projected benefit payment stream of the plan. For this reason, we also consider the individual characteristics of the plan, such as projected cash flow patterns and payment durations, when setting the discount rate. The rates used in determining 2012 and 2013 pension expense are 4.30% and 3.90%, respectively.

We have used an expected rate of return on pension plan assets of 8.0% for purposes of determining the net periodic pension benefit cost. In determining the expected return on pension plan assets, we consider the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. In addition, we consult with financial and investment management professionals in developing appropriate targeted rates of return.

For the three and nine months ending September 30, 2013 we recorded pension expense of $0.3 million and $0.9 million, respectively. Pension expense in 2013 is expected to be $1.1 million compared to expense of $2.0 million in 2012. We contributed $7.5 million during the first quarter of 2013 and do not expect any further contributions during 2013.

See Note 9 to the Consolidated Condensed Financial Statements for further discussion.

Table of Contents

Stock Based Compensation

All share-based payments to employees, including grants of employee stock options, restricted stock units, performance share units and stock appreciation rights are recognized in the financial statements based at their fair values. Compensation expense is generally recognized using a straight-line method over the vesting period. Compensation expense for performance share units is recognized using the graded vesting method.

Income Taxes

The recorded future tax benefit arising from deductible temporary differences and tax carryforwards is approximately $42.6 million at September 30, 2013. Management believes that earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future income tax benefits.

The Company is subject to taxation in the United States and various states and foreign jurisdictions. Taxing authority examinations can involve complex issues and may require an extended period of time to resolve. Our Federal income tax returns have been examined by the Internal Revenue Service (“IRS”) for calendar years ending through 2011. Tax years subsequent to 2011 are subject to future examination.

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2013	2012	2013
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	46.2	46.8	47.2	46.2
Gross profit	53.8	53.2	52.8	53.8
Selling and administrative expense	40.7	41.0	39.3	40.8
Research and development expense	3.9	4.0	3.8	3.5
Medical device excise tax	—	0.8	—	0.8
Other expense	1.5	2.6	1.1	1.5
Income from operations	7.7	4.8	8.6	7.2
Loss on early extinguishment of debt	—	—	—	0.1
Interest expense	0.7	0.8	0.8	0.7
Income before income taxes	7.0	4.0	7.8	6.4
Provision for income taxes	1.9	1.0	2.5	1.8
Net income	5.1 %	3.0 %	5.3 %	4.6 %

Quarter ended September 30, 2013 compared to quarter ended September 30, 2012

Sales for the quarter ended September 30, 2013 were $179.3 million, a decrease of $2.6 million (-1.4%) compared to sales of $181.9 million in the same period a year ago with decreases in the orthopedic and visualization product lines. Sales of capital equipment decreased $4.5 million (-11.9%) to $33.4 million in the quarter ended September 30, 2013 from $37.9 million in the same period a year ago; sales of single-use products increased $1.9 million (1.3%) to $145.9 million in the quarter ended September 30, 2013 from $144.0 million in the same period a

year ago. On a local currency basis, excluding the effects of our hedging program, sales of capital equipment decreased 11.1% and single-use products increased 2.4%.

- Orthopedic surgery sales decreased $0.6 million (-0.6%) in the quarter ended September 30, 2013 to $95.6 million from $96.2 million in the same period a year ago mainly due to lower sales in our large bone handpieces. In local currency, excluding the effects of the hedging program, sales increased 0.8%.

Table of Contents

- General surgery sales increased $0.7 million (1.0%) in the quarter ended September 30, 2013 to $69.9 million from $69.2 million in the same period a year ago mainly due to higher sales in our Endomechanical and Advanced Energy products. In local currency, excluding the effects of the hedging program, sales increased 1.7%.

- Surgical visualization sales decreased $2.7 million (-16.4%) in the quarter ended September 30, 2013 to $13.8 million from $16.5 million in the same period a year ago due to lower video system product sales. In local currency, excluding the effects of the hedging program, sales decreased 16.4%.

Cost of sales remained flat at $83.8 million in the quarter ended September 30, 2013 as compared to $84.0 million in the same period a year ago. Gross profit margins decreased 0.6 percentage points to 53.2% in the quarter ended September 30, 2013 as compared to 53.8% in the same period a year ago. The decrease in gross profit margins of 0.6 percentage points is primarily a result of the charges associated with the discontinuation of a patient monitoring product offering offset by lower costs resulting from the restructuring initiatives we have completed throughout our operations.

Selling and administrative expense decreased to $73.5 million in the quarter ended September 30, 2013 as compared to $74.1 million in the same period a year ago. Selling and administrative expense as a percentage of net sales increased to 41.0% in the quarter ended September 30, 2013 as compared to 40.7% in the same period a year ago. This increase of 0.3 percentage points is attributable to lower overall sales in the quarter ended September 30, 2013.

Research and development expense totaled $7.1 million in the quarter ended September 30, 2013 and in the same period a year ago. As a percentage of net sales, research and development expense increased to 4.0% in the quarterly period ending September 30, 2013 compared to 3.9% in the same period a year ago. The increase of 0.1 percentage points is mainly a result of flat spending on lower sales.

In accordance with the Patient Protection and Affordable Care Act and Health Care and Education Affordability Reconciliation Act, the Company was required in 2013 to begin paying a 2.3% excise tax imposed upon sales within the U.S. of certain medical device products. The medical device excise tax expense totaled $1.4 million in the quarterly period ending September 30, 2013.

As discussed in Note 10 to the Consolidated Condensed Financial Statements, other expense in the quarter ended September 30, 2013 consisted of a $3.1 million charge related to administrative consolidation expenses and $1.5 million in legal costs associated with a patent infringement claim as further described in Note 12. Other expense in the quarter ended September 30, 2012 consisted of a $1.9 million charge related to administrative consolidation expenses and $0.7 million in costs associated with the purchase of Viking Systems, Inc..

Interest expense was $1.4 million in the quarter ended September 30, 2013 compared to $1.3 million in the same period a year ago. Interest expense remained relatively flat as lower weighted average interest rates resulting from the amended and restated credit agreement offset the cost associated with higher weighted average borrowings outstanding in the quarter ended September 30, 2013 as compared to the same period a year ago. The weighted average interest rates on our borrowings decreased to 2.30% in the quarter ended September 30, 2013 as compared to 3.09% in the same period a year ago.

A provision for income taxes has been recorded at an effective tax rate of 23.4% for the quarter ended September 30, 2013 compared to the 27.0% effective tax rate recorded in the same period a year ago. The effective tax rate for the quarter ended September 30, 2013 is lower than that recorded in the same period a year ago as a result of a greater proportion of earnings in foreign jurisdictions where the tax rates are lower than the statutory rate, tax benefits recorded in the third quarter of 2013 as a result of taxing authority determinations, and tax benefits related to business tax provisions, including the research and development credit, that were enacted in the first quarter of 2013,

retroactive to January 1, 2012. A reconciliation of the United States statutory income tax rate to our effective tax rate is included in our Annual Report on Form 10-K for the year-ended December 31, 2012, Note 6 to the Consolidated Financial Statements.

Nine Months Ended September 30, 2013 compared to nine months ended September 30, 2012

Sales for the nine months ended September 30, 2013 were $559.3 million, a decrease of $6.6 million (-1.2%) compared to sales of $565.9 million in the same period a year ago with decreases across all product lines. In local currency, excluding the effects of the hedging program, sales decreased 0.5%. Sales of capital equipment decreased $2.9 million (-2.5%) to $111.8 million in the nine months ended September 30, 2013 from $114.7 million in the same period a year ago; sales of single-use products decreased $3.7 million (-0.8%) to $447.5 million in the nine months ended September 30, 2013 from $451.2 million in the same period a year ago. On a local currency basis, excluding the effects of the hedging program, sales of capital equipment decreased 2.1% while single-use products decreased 0.1%.

Table of Contents

- Orthopedic surgery sales decreased $4.5 million (-1.5%) in the nine months ended September 30, 2013 to $302.4 million from $306.9 million in the same period a year ago due to lower sales in our resection product offerings and large bone burs and blades. In local currency, excluding the effects of the hedging program, sales decreased 0.6%.

- General surgery sales remained relatively flat with just a $0.3 million (-0.1%) decrease in the nine months ended September 30, 2013 to $210.0 million from $210.3 million in the same period a year ago due to lower sales in our Patient Monitoring products offset by increases in our Endomechanical products. In local currency, excluding the effects of the hedging program, sales increased 0.2%.

- Surgical visualization sales decreased $1.8 million (-3.7%) in the nine months ended September 30, 2013 to $46.9 million from $48.7 million in the same period a year ago due to lower video system product sales. In local currency, excluding the effects of the hedging program, sales decreased 3.5%.

Cost of sales decreased to $258.2 million in the nine months ended September 30, 2013 as compared to $267.3 million in the same period a year ago. Gross profit margins increased 1.0 percentage points to 53.8% in the nine months ended September 30, 2013 as compared to 52.8% in the same period a year ago primarily as a result of the lower costs resulting from the restructuring initiatives we have completed throughout our operation.

Selling and administrative expense increased to $228.4 million in the nine months ended September 30, 2013 as compared to $222.6 million in the same period a year ago. Selling and administrative expense as a percentage of net sales increased to 40.8% in the nine months ended September 30, 2013 as compared to 39.3% in the same period a year ago. This increase of 1.5 percentage points is attributable to higher selling and marketing expenses during the period.

Research and development expense totaled $19.4 million in the nine months ended September 30, 2013 as compared to $21.4 million in the same period a year ago. As a percentage of net sales, research and development expense decreased to 3.5% in the nine months ended September 30, 2013 compared to 3.8% in the same period a year ago. This decrease of 0.3 percentage points is mainly a result of the timing of projects.

In accordance with the Patient Protection and Affordable Care Act and Health Care and Education Affordability Reconciliation Act, the Company was required in 2013 to begin paying a 2.3% excise tax imposed upon sales within the U.S. of certain medical device products. The medical device excise tax expense totaled $4.4 million in the nine months ended September 30, 2013.

As discussed in Note 10 to the Consolidated Condensed Financial Statements, other expense in the nine months ended September 30, 2013 consisted of a $6.3 million charge related to administrative consolidation expenses and $2.2 million in legal costs associated with a patent infringement claim as further described in Note 12. Other expense in the nine months ended September 30, 2012 consisted of $3.4 million in charges related to administrative consolidation expenses, $1.6 million in costs associated with legal arbitration related to a contract dispute with a former distributor, $0.7 million in costs associated with the acquisition of our former distributor in the Nordic region of Europe and $0.7 million in costs associated with the purchase of Viking Systems, Inc..

During the nine months ended September 30, 2013, we recorded a $0.3 million loss on the early extinguishment of debt related to the write-off of unamortized deferred financing costs under the previously existing senior credit agreement.

Interest expense was $4.1 million in the nine months ended September 30, 2013 as compared to $4.3 million in the same period a year ago. The decrease in interest expense is due to lower weighted average interest rates resulting from

the amended and restated credit agreement on higher weighted average borrowings outstanding in the nine months ended September 30, 2013 as compared to the same period a year ago. The weighted average interest rates on our borrowings decreased to 2.33% in the nine months ended September 30, 2013 as compared to 3.02% in the same period a year ago.

A provision for income taxes has been recorded at an effective tax rate of 28.4% for the nine months ended September 30, 2013 compared to the 32.6% effective tax rate recorded in the same period a year ago. The effective tax rate for the nine months ended September 30, 2013 is lower than that recorded in the same period a year ago as a result of a greater proportion of earnings in foreign jurisdictions where the tax rates are lower than the statutory rate, tax benefits recorded in the third quarter of 2013 as a result of taxing authority determinations, and tax benefits related to business tax provisions, including the research and development credit ($0.8 million), that were enacted in the first quarter of 2013, retroactive to January 1, 2012. A reconciliation of the United States statutory income tax rate to our effective tax rate is included in our Annual Report on Form 10-K for the year-ended December 31, 2012, Note 6 to the Consolidated Financial Statements.

Table of Contents

Liquidity and Capital Resources

Our liquidity needs arise primarily from capital investments, working capital requirements and payments on indebtedness under the senior credit agreement. We have historically met these liquidity requirements with funds generated from operations and borrowings under our revolving credit facility. In addition, we have historically used term borrowings, including borrowings under the senior credit agreement and borrowings under separate loan facilities, in the case of real property purchases, to finance our acquisitions. We also have the ability to raise funds through the sale of stock or we may issue debt through a private placement or public offering.

Operating cash flows

Our net working capital position was $263.0 million at September 30, 2013. Net cash provided by operating activities was $53.6 million in the nine months ended September 30, 2013 and $61.3 million in the same period a year ago generated on net income of $25.7 million and $29.6 million as of September 30, 2013 and 2012, respectively.

The decrease in cash provided by operating activities is primarily the result of the payments related to the medical device excise tax that became effective January 1, 2013 and changes in working capital accounts in 2013.

Investing cash flows

Net cash used in investing activities in the nine months ended September 30, 2013 consisted primarily of capital expenditures. Capital expenditures were $16.0 million and $13.6 million for the nine month periods ended September 30, 2012 and 2013, respectively, and are expected to approximate $20.0 million in 2013. The decrease in cash used in investing activities is the result of $82.8 million in payments during the nine months ended September 30, 2012 associated with the distribution and development agreement with Musculoskeletal Transplant Foundation (“MTF”).

Financing cash flows

Net cash provided by financing activities during 2013 consisted of the following: $13.0 million in proceeds from the issuance of common stock under our equity compensation plans and employee stock purchase plan and $64.0 million in borrowings on our revolving credit facility under our amended and restated senior credit agreement. These amounts were offset by a $34.0 million payment associated with the distribution and development agreement with MTF, $44.7 million in repurchases of treasury stock, $12.6 million in dividend payments related to our common stock, $1.7 million in payments related to issuance of debt and $0.2 million in payments related to the remaining balance of our 2.50% convertible senior subordinated notes.

On January 17, 2013, we entered into an amended and restated $350.0 million senior credit agreement (the "amended and restated senior credit agreement"). The amended and restated senior credit agreement consists of a $350.0 million revolving credit facility expiring on January 17, 2018. The amended and restated senior credit agreement was used to repay borrowings outstanding on the revolving credit facility under the then existing senior credit agreement. In connection with the refinancing, we recorded a $0.3 million loss on the early extinguishment of debt related to the write-off of unamortized deferred financing costs under the then existing senior credit agreement. Initial interest rates are at LIBOR plus 1.50% (1.70% at September 30, 2013) or an alternative base rate. For those borrowings where the Company elects to use the alternative base rate, the base rate will be the greater of the Prime Rate, the Federal Funds Rate in effect on such date plus 0.50%, or the one month Eurocurrency rate plus 1%, plus an additional margin of 0.50%.

There were $217.0 million in borrowings outstanding on the $350.0 million revolving credit facility of the amended and restated senior credit agreement as of September 30, 2013. Our available borrowings on the revolving credit facility of the amended and restated senior credit agreement at September 30, 2013 were $124.4 million with approximately $8.6 million of the facility set aside for outstanding letters of credit.

The amended and restated senior credit agreement is collateralized by substantially all of our property and assets. The amended and restated senior credit agreement contains covenants and restrictions which, among other things, require the maintenance of certain financial ratios, and restrict dividend payments and the incurrence of certain indebtedness and other activities, including acquisitions and dispositions. We were in full compliance with these covenants and restrictions as of September 30, 2013.

Table of Contents

We have a mortgage note outstanding in connection with the Largo, Florida property and facilities bearing interest at 8.25% per annum with semiannual payments of principal and interest through June 2019. The principal balance outstanding on the mortgage note aggregated $8.1 million at September 30, 2013. The mortgage note is collateralized by the Largo, Florida property and facilities.

Our Board of Directors authorized a $200.0 million share repurchase program. Through September 30, 2013, we have repurchased a total of 5.6 million shares of common stock aggregating $139.9 million under this program and have $60.1 million remaining available for share repurchases. The repurchase program calls for shares to be purchased in the open market or in private transactions from time to time. We may suspend or discontinue the share repurchase program at any time. We repurchased $44.7 million under the share repurchase program during the first nine months of 2013. We have financed the repurchases and may finance additional repurchases through operating cash flow and from available borrowings under our amended and restated senior credit agreement.

During 2012, the Board of Directors adopted a cash dividend policy. The $0.15 per share dividend for the third quarter of 2013 was paid on October 4, 2013 to shareholders of record as of September 16, 2013. The total dividend payable at September 30, 2013 was $4.1 million and is included in other current liabilities in the consolidated condensed balance sheet.

Management believes that cash flow from operations, including cash and cash equivalents on hand and available borrowing capacity under our amended and restated senior credit agreement, will be adequate to meet our anticipated operating working capital requirements, debt service, funding of capital expenditures and common stock repurchases in the foreseeable future.

Restructuring

During 2012 and 2013, we have continued our operational restructuring plan which includes the transfer of additional production lines from manufacturing facilities located in the United States to our manufacturing facility in Chihuahua, Mexico and the consolidation of our Finland operations into our Largo, Florida and Utica, New York manufacturing facilities. During the first quarter of 2013, we began the consolidation of our Westborough, Massachusetts operations into our Largo, Florida and Chihuahua, Mexico facilities. We incurred $1.8 million and $4.5 million in costs associated with the restructuring during the three and nine months ended September 30, 2012, respectively, and incurred $1.1 million and $4.4 million in costs associated with restructuring during the three and nine months ended September 30, 2013, respectively. These costs were charged to cost of goods sold and include severance and other charges associated with the transfer of production to Mexico and consolidation of our Finland and Westborough, Massachusetts operations.

As part of our ongoing restructuring, the Company discontinued a patient monitoring product offering and incurred $2.1 million in costs which were charged to cost of goods sold during the three and nine months ended September 30, 2013.

During 2012 and 2013, we restructured certain administrative functions throughout the Company. For the three and nine months ended September 30, 2012 we incurred $1.9 million and $3.4 million, respectively, in related costs and for the three and nine months ended September 30, 2013 we incurred $3.1 million and $6.3 million, respectively, in related costs consisting principally of severance charges. These costs were charged to other expense.

We have recorded an accrual in current liabilities of $3.7 million at September 30, 2013 mainly related to severance and lease impairment costs associated with the restructuring. We expect this phase of our plan and related cash payments to be substantially completed in 2013.

We plan to continue to restructure both operations and administrative functions as necessary throughout the organization. As the restructuring plan progresses, we will incur additional charges, including employee termination costs and other exit costs. We estimate restructuring and other costs will approximate $19.0 million to $20.0 million for the full year of 2013 and will be recorded to cost of goods sold and other expense.

See Note 14 to the Consolidated Condensed Financial Statements for further discussions regarding restructuring.

New accounting pronouncements

See Note 13 to the Consolidated Condensed Financial Statements for a discussion of new accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Table of Contents

There have been no significant changes in our primary market risk exposures or in how these exposures are managed during the nine months ended September 30, 2013. Reference is made to Item 7A. of our Annual Report on Form 10-K for the year-ended December 31, 2012 for a description of Qualitative and Quantitative Disclosures About Market Risk.

Item 4. Controls and Procedures

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) was carried out under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and the Executive Vice President, Finance and Chief Financial Officer ("the Certifying Officers") as of September 30, 2013. Based on that evaluation, the Certifying Officers concluded that the Company's disclosure controls and procedures are effective. There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Item 3 of the Company's Annual Report on Form 10-K for the year-ended December 31, 2012 and to Note 12 of the Notes to Consolidated Condensed Financial Statements included in Part I of this Report for a description of certain legal matters.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
31.1	Certification of Joseph J. Corasanti pursuant to Rule 13a-14(a) or Rule 15d-14(a), of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Robert D. Shallish, Jr. pursuant to Rule 13a-14(a) or Rule 15d-14(a), of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Joseph J. Corasanti and Robert D. Shallish, Jr. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from CONMED Corporation's Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2013 formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Condensed Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and 2013, (ii) the Consolidated Condensed Balance Sheets at September 30, 2013 and December 31, 2012, (iii) Consolidated Condensed Statements of Cash Flows for the nine months ended September 30, 2012 and 2013, and (iv) Notes to Consolidated Condensed Financial Statements for the nine months ended September 30, 2013. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

24

Table of Contents

SIGNATURES

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

CONMED CORPORATION
(Registrant)

Date: October 25, 2013

/s/ Robert D. Shallish, Jr.
Robert D. Shallish, Jr.
Executive Vice President, Finance and
Chief Financial Officer

Table of Contents

Exhibit Index

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