

CONMED CORP  
Form 10-K  
February 25, 2013

United States  
Securities and Exchange Commission  
Washington, D.C.  
20549

Form 10-K  
Annual Report Pursuant to Section 13 or 15(d) of  
The Securities Exchange Act of 1934

For the fiscal year ended December 31, 2012

Commission file number 0-16093

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

New York  
(State or other jurisdiction of incorporation or  
organization)

16-0977505  
(I.R.S. Employer Identification No.)

525 French Road, Utica, New York  
(Address of principal executive offices)

13502  
(Zip Code)

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

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.01 par value per share  
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act).  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the  
Exchange Act.  
Yes  No

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  No

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).

Edgar Filing: CONMED CORP - Form 10-K

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

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 and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one).

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

As of June 30, 2012, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of voting common stock held by non-affiliates of the registrant was approximately \$786,111,009 based upon the closing price of the Company's common stock on the NASDAQ Stock Market.

The number of shares of the registrant's \$0.01 par value common stock outstanding as of February 19, 2013 was 28,074,682.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Definitive Proxy Statement or other informational filing for the 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

---

CONMED CORPORATION  
 ANNUAL REPORT ON FORM 10-K  
 FOR YEAR ENDED DECEMBER 31, 2012  
 TABLE OF CONTENTS

Part I

	Page
Item 1. <u>Business</u>	<u>2</u>
Item 1A. <u>Risk Factors</u>	<u>17</u>
Item 2. <u>Properties</u>	<u>23</u>
Item 3. <u>Legal Proceedings</u>	<u>23</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>24</u>

Part II

Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>24</u>
Item 6. <u>Selected Financial Data</u>	<u>27</u>
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>40</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>41</u>
Item 9. <u>Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>41</u>
Item 9A. <u>Controls and Procedures</u>	<u>41</u>
Item 9B. <u>Other Information</u>	<u>42</u>

Part III

Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>43</u>
Item 11. <u>Executive Compensation</u>	<u>43</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>43</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>43</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>43</u>

Part IV

Item 15. <u>Exhibits, Financial Statement Schedules</u>	<u>44</u>
<u>Signatures</u>	<u>45</u>

CONMED CORPORATION

Item 1. Business

Forward Looking Statements

This Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2012 (“Form 10-K”) contains certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) and information relating to CONMED Corporation (“CONMED”, the “Company”, “we” or “us” — references to “CONMED”, the “Company”, “we” or “us” shall be deemed to include our direct and indirect subsidiaries unless the context otherwise requires) which are based on the beliefs of our management, as well as assumptions made by and information currently available to our management.

When used in this Form 10-K, the words “estimate,” “project,” “believe,” “anticipate,” “intend,” “expect” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, including those identified under the caption “Item 1A-Risk Factors” and elsewhere in this Form 10-K which 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, among others, the following:

- 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 tissues 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;
- changes in regulatory requirements; and
- various other factors referenced in this Form 10-K.

See “Item 7-Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Item 1-Business” and “Item 1A-Risk Factors” for a further discussion of these factors. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Form 10-K or to reflect the occurrence of unanticipated events.

General

CONMED Corporation was incorporated under the laws of the State of New York in 1970 by Eugene R. Corasanti, the Company’s founder and Chairman of the Board. CONMED 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. Headquartered in Utica, New York, the Company's 3,600 employees distribute its products worldwide from several manufacturing locations. See Note 8 to the Consolidated Financial Statements for further discussion of our reporting segments and financial information about geographic areas.

We have historically used strategic business acquisitions and exclusive distribution relationships to diversify our product offerings, increase our market share in certain product lines, realize economies of scale and take advantage of growth opportunities in the healthcare field.

We are committed to offering products with the highest standards of quality, technological excellence and customer service. Substantially all of our facilities have attained certification under the ISO international quality standards and other domestic and international quality accreditations.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are accessible free of charge through the Investor Relations section of our website (<http://www.conmed.com>) as soon as practicable after such materials have been electronically filed with, or furnished to, the United States Securities and Exchange Commission. Our SEC filings are also available for reading and copying at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (<http://www.sec.gov>) containing reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

## Industry

Market growth for our products is primarily driven by:

**Favorable Demographics.** The number of surgical procedures performed is increasing and we believe the long term demographic trend will be continued growth in surgical procedures as a result of the aging of the population, and technological advancements, which result in safer and less invasive (or non-invasive) surgical procedures. Additionally, as people are living longer, more active lives, they are engaging in contact sports and activities such as running, skiing, rollerblading, golf and tennis which result in injuries with greater frequency and at an earlier age than ever before. Sales of surgical products aggregate to approximately 90% of our total net revenues in 2012. See "Products."

**Continued Pressure to Reduce Health Care Costs.** In response to rising health care costs, managed care companies and other third-party payers have placed pressures on health care providers to reduce costs. As a result, health care providers have focused on the high cost areas such as surgery. To reduce costs, health care providers use minimally invasive techniques, which generally reduce patient trauma, recovery time and ultimately the length of hospitalization. Approximately 50% of our products are designed for use in minimally invasive surgical procedures. See "Products." Health care providers are also increasingly purchasing single-use, disposable products, which reduce the costs associated with sterilizing surgical instruments and products following surgery. The single-use nature of disposable products lowers the risk of incorrectly sterilized instruments spreading infection into the patient and increasing the cost of post-operative care. Approximately 80% of our sales are derived from single-use disposable products.

In the United States, the pressure on health care providers to contain costs has caused many health care providers to enter into comprehensive purchasing contracts with fewer suppliers, which offer a broader array of products at lower prices. In addition, many health care providers have aligned themselves with Group Purchasing Organizations ("GPOs") or Integrated Health Networks ("IHNs"), whose stated purpose is to aggregate the purchasing volume of their members in order to negotiate competitive pricing with suppliers, including manufacturers of surgical products. We believe that these trends will favor entities which offer a diverse product portfolio. See "Business Strategy".

**Increased Global Medical Spending.** We believe that foreign markets offer significant growth opportunities for our products. We currently distribute our products through our own sales subsidiaries or through local dealers in over 100 foreign countries.

## Competitive Strengths

Management believes that we hold a significant market share position in each of our key product areas including, Arthroscopy, Powered Surgical Instruments, Electrosurgery, Patient Care, Endosurgery and Endoscopic Technologies. We have established a leadership position in the marketplace by capitalizing on the following competitive strengths:

**Brand Recognition.** Our products are marketed under leading brand names, including CONMED<sup>®</sup>, CONMED Linvatec<sup>®</sup> and Hall Surgical<sup>®</sup>. These brand names are recognized by physicians and healthcare professionals for quality and service. It is our belief that brand recognition facilitates increased demand for our products in the marketplace, enables us to build upon the brand's associated reputation for quality and service, and realize increased market acceptance of new branded products.

**Breadth of Product Offering.** The breadth of our product lines in our key product areas enables us to meet a wide range of customer requirements and preferences. This has enhanced our ability to market our products to surgeons, hospitals,

surgery centers, GPOs, IHNs and other customers, particularly as institutions seek to reduce costs and minimize the number of suppliers.

**Successful Integration of Acquisitions.** We seek to build growth platforms around our core markets through focused acquisitions of complementary businesses and product lines. These acquisitions have enabled us to diversify our product portfolio, expand our sales and marketing capabilities and strengthen our presence in key geographical markets.

**Strategic Marketing and Distribution Channels.** We market our products domestically through five focused sales force groups consisting of approximately 275 employee sales representatives and 260 sales professionals employed by independent sales agent groups. Our dedicated sales professionals are highly knowledgeable in the applications and procedures for the products they sell. Our sales representatives foster close professional relationships with physicians, surgeons, hospitals, outpatient surgery centers and physicians' offices. Additionally, we maintain a global presence through sales subsidiaries and branches located in key international markets. We directly service hospital customers located in these markets through an employee-based international sales force of approximately 190 sales representatives. We also maintain distributor relationships domestically and in numerous countries worldwide. See "Marketing."

**Operational Improvements and Manufacturing.** We are focused on continuously improving our supply chain effectiveness, strengthening our manufacturing processes and optimizing our plant network to increase operational efficiencies within the organization. Substantially all of our products are manufactured and assembled from components we produce. Our strategy has historically been to vertically integrate our manufacturing facilities in order to develop a competitive advantage. This integration provides us with cost efficient and flexible manufacturing operations which permit us to allocate capital more efficiently. Additionally, we attempt to exploit commercial synergies between operations, such as the procurement of common raw materials and components used in production.

**Technological Leadership.** Research and development efforts are closely aligned with our key business objectives, namely developing and improving products and processes, applying innovative technology to the manufacture of products for new global markets and reducing the cost of producing core products. These efforts are evidenced by recent product introductions, such as the Genesys PressFT™ Suture Anchor, Y-Knot™ All-suture Anchor, M-Class Blades, DetachaTip® III Endoscopic manual instruments, Hip Preservation System™ from access to repair, the Hall Surgical Lithium Power Battery System and Altrus® Thermal Tissue Fusion System.

## Business Strategy

Our principal objectives are to improve the quality of surgical outcomes and patient care through the development of innovative medical devices, the refinement of existing products and the development of new technologies which reduce risk, trauma, cost and procedure time. We believe that by meeting these objectives we will enhance our ability to anticipate and adapt to customer needs and market opportunities, and provide shareholders with superior investment returns. We intend to achieve future growth and earnings development through the following initiatives:

**Introduction of New Products and Product Enhancements.** We continually pursue organic growth through the development of new products and enhancements to existing products. We seek to develop new technologies which improve the durability, performance and usability of existing products. In addition to our internal research and development efforts, we receive new ideas for products and technologies, particularly in procedure-specific areas, from surgeons, inventors and other healthcare professionals.

**Pursue Strategic Acquisitions.** We pursue strategic acquisitions, distribution and similar arrangements in existing and new growth markets to achieve increased operating efficiencies, geographic diversification and market



penetration. Targeted companies have historically included those with proven technologies and established brand names which provide potential sales, marketing and manufacturing synergies.

**Realize Manufacturing and Operating Efficiencies.** We continually review our production systems for opportunities to reduce operating costs, consolidate product lines or identical process flows, reduce inventory requirements and optimize existing processes. Our vertically integrated manufacturing facilities allow for further opportunities to reduce overhead, increase operating efficiencies and capacity utilization.

**Geographic Diversification.** We believe that significant growth opportunities exist for our surgical products outside the United States. Principal foreign markets for our products include Europe, Latin America and Asia/Pacific Rim. Critical elements of our future sales growth in these markets include leveraging our existing relationships with

foreign surgeons, hospitals, third-party payers and foreign distributors, maintaining an appropriate presence in emerging market countries and continually evaluating our routes-to-market.

**Active Participation In The Medical Community.** We believe that excellent working relationships with physicians and others in the medical industry enable us to gain an understanding of new therapeutic and diagnostic alternatives, trends and emerging opportunities. Active participation allows us to quickly respond to the changing needs of physicians and patients. In addition, we are an active sponsor of medical education both in the United States and internationally, offering new and innovative surgical techniques as well as other medical education materials for use with our products.

## Products

The following table sets forth the percentage of net sales for each of our product lines during each of the three years ended December 31:

	Year Ended December 31,			
	2010	2011	2012	
Arthroscopy	40	% 40	% 43	%
Powered Surgical Instruments	20	20	20	
Electrosurgery	14	14	12	
Endosurgery	9	10	10	
Patient Care	10	9	8	
Endoscopic Technologies	7	7	7	
Total	100	% 100	% 100	%
Net Sales (in thousands)	\$713,723	\$725,077	\$767,140	

## Arthroscopy

A significant portion of arthroscopic procedures are performed to repair injuries which have occurred in the articulating joint areas of the body. Many of these injuries are the result of sports related events or similar traumas. For this reason, arthroscopy is often referred to as “sports medicine.”

We offer a comprehensive range of devices and products for use in arthroscopic surgery. Arthroscopy refers to diagnostic and therapeutic surgical procedures performed on joints with the use of minimally invasive arthroscopes and related instruments. Minimally invasive arthroscopic procedures enable surgical repairs to be completed with less trauma to the patient, resulting in shorter recovery times and cost savings. Arthroscopic procedures are performed on the knee, shoulder, and hip as well as smaller joints, such as the hand, wrist and ankle.

Our arthroscopy products include powered resection instruments, arthroscopes, reconstructive systems, tissue repair sets, metal and bioabsorbable implants as well as related disposable products and fluid management systems. We also offer a line of video Endoscopy products suitable for use in multi-specialty clinical environments beyond orthopedic arthroscopy, including laparoscopy, ENT, gynecology and urology. It is our standard practice to place some of these products, such as shaver consoles and pumps, with certain customers at no charge in exchange for commitments to purchase disposable products over certain time periods. This capital equipment is loaned and subject to return if certain minimum single-use purchases are not met. Single-use products include products such as shaver blades, burs and pump tubing. We have benefited from the introduction of new arthroscopic products and technologies, such as bioabsorbable screws, ablaters, “push-in” and “screw-in” suture anchors, and resection shavers.

As more fully described in Note 4 to the Consolidated Financial Statements, on January 3, 2012, we entered into a joint development and distribution agreement with the Musculoskeletal Transplant Foundation (“MTF”) to obtain the exclusive worldwide rights to promote its allograft tissues in the field of sports medicine and extremity reconstruction.

Allograft is a tissue form derived from another human donor, tested, processed and subsequently surgically implanted into the human body to repair a defect or injury. Under the terms of this agreement, we are now the exclusive worldwide promoter of these allograft tissues, which includes the reconstruction and/or replacement of tendon, ligament, cartilage or menisci, along with the correction of deformities within the extremities. Additionally, under the framework of this transaction with MTF, we acquired an exclusive worldwide license in the fields of sports medicine, extremities, and wound care to distribute an autologous

platelet-enrichment system (Cascade<sup>®</sup>), which is used to concentrate a patient's own platelets for the treatment of acute or chronic conditions at an injury site.

As more fully described in Note 16 to the Consolidated Financial Statements, on September 24, 2012, we acquired Viking Systems, Inc. a developer, manufacturer and marketer of visualization solutions for complex minimally invasive surgery. Viking's most recent version of their proprietary visualization system is the Viking<sup>®</sup> 3DHD Vision System. The 3DHD Vision System is an advanced three dimensional, or 3D, vision system which employs a flat screen monitor and passive glasses. It is used by surgeons during complex minimally invasive surgical procedures, with applications in gynecologic, urologic, bariatric, thoracic and general surgery.

Arthroscopy Product	Description	Brand Name						
Sports Medicine Implants	Products including bioabsorbable and metal screws, pins and suture anchors for attaching soft tissue to bone in the knee, shoulder, wrist, and hip as well as meniscal repair.	BioScrew® Bio-Anchor® BioTwist® UltraFix® Revo® Super Revo® Bionx™ Meniscus Arrow™ SmartNail® SmartPin® The Wedge™ Bio Stinger® Hornet® ThRevo® Duet™ Impact™ Bio Mini Revo® XO Button® Paladin® Presto® SRS™ PopLok® CrossFT™ Y-Knot™						
		Knee Reconstructive Systems	Products used in cruciate reconstructive surgery; includes instrumentation, screws, pins and ligament harvesting and preparation devices.	Pinn-ACL® Grafix® Matryx® Bioscrew™ EndoPearl® XtraLok® Sequent™				
				Soft Tissue Repair Systems	Instrument systems designed to attach specific torn or damaged soft tissue to bone or other soft tissue in the knee, shoulder and wrist; includes instrumentation, guides, hooks and suture devices.	Spectrum® Inteq® Shuttle Relay™ Blitz® Hi-Fi® Suture Saver™ Spectrum® MVP Super Shuttle®		
						Ablators and Shaver Ablators	Electrosurgical ablaters and resection ablaters to resect and remove soft tissue and bone; used in knee, shoulder and small joint surgery.	Lightwave® Trident®

Fluid Management Systems

Disposable tubing sets, disposable and reusable inflow devices, pumps and suction/waste management systems for use in arthroscopic and general surgeries.

Apex®  
Quick-Flow®  
Quick-Connect®  
87K™  
10K®  
24K®

7

---

Arthroscopy Product	Description	Brand Name
Video	Surgical video systems for endoscopic procedures; includes high definition (HD) and 3DHD, autoclavable three-chip camera heads as well as camera consoles, endoscopes, light sources, monitors, image capture devices and printers.	Quicklatch™ Scopes Shock Flex™ prism mount TrueHD™ IM4000 HD camera system Viking® 3DHD
Arthroscopic Shaver Systems	Electrically powered shaver handpieces that accommodate a large variety of shaver blade disposables specific to clinical specialty and technological precision.	Advantage® Turbo™ Gator® Great White® Mako™ Merlin® Sterling® Ultracut® Zen® ReAct® Ergo™
Promotion rights to allograft tissue for sports medicine	We have exclusive promotional rights to Musculoskeletal Transplant Foundation's ("MTF") allograft tissue for sports medicine	Musculoskeletal Transplant Foundation
Platelet-Rich Plasma Therapy Products	Platelet-rich therapies which include platelet rich plasma, membrane and matrix applications.	Cascade® Autologous Platelet System
Other Instruments and Accessories	Forceps, graspers, punches, probes, sterilization cases and other general instruments for arthroscopic procedures.	Shutt® Concept® TractionTower® Clearflex™ SE™ Dry-Doc® Cannulae Hip Preservation System™

#### Powered Surgical Instruments

Electric, battery or pneumatic powered surgical instruments are used to perform orthopedic, arthroscopic and other surgical procedures where cutting, drilling or reaming of bone is required. Each power system consists of one or more handpieces and related accessories as well as disposable and limited reusable items (e.g., burs, saw blades, drills and reamers). Powered instruments are categorized as either small bone, large bone or specialty powered instruments. Specialty powered instruments are utilized in procedures such as spinal surgery, neurosurgery, ENT,

oral/maxillofacial surgery, and cardiothoracic surgery.

Our line of powered instruments is sold principally under the Hall® Surgical brand name, for use in large and small bone orthopedic, arthroscopic, oral/maxillofacial, podiatric, plastic, ENT, neurological, spinal and cardiothoracic surgeries. Large bone, neurosurgical, spinal and cardiothoracic powered instruments are sold primarily to hospitals while small bone arthroscopic, otolaryngological and oral/maxillofacial powered instruments are sold to hospitals, outpatient facilities and physicians' offices. Our CONMED Linvatec operating segment has devoted significant resources in the development of new technologies for battery, electric and pneumatic powertool platforms which may be easily adapted and modified for new procedures.

Our powered instruments product line includes the MPower® battery system. This full function orthopedic power system is specifically designed to meet the requirements of most orthopedic applications. The modularity and versatility of the MPower® battery system allows a facility to purchase a single power system to perform total joint arthroplasty, trauma, arthroscopy, and small bone procedures. The system also provides a multitude of battery technologies to meet the varying needs of hospitals worldwide.



## Powered Surgical Instruments

Product	Description	Brand Name
Large Bone	Powered saws, drills and related disposable accessories for use primarily in total knee and hip joint replacements and trauma surgical procedures.	Hall® Surgical PowerPro® PowerProMax™ MPower®
Small Bone	Powered saws, drills and related disposable accessories for hand, foot, and other small bone related surgical procedures.	Hall® Surgical MicroPower® Micro 100™ Surgairtome Two® MPower®
Otolaryngology Neurosurgery Spine Oral/maxillofacial	Specialty powered saws, drills and related disposable accessories for use in neurosurgery, spine, otolaryngologic and oral/maxillofacial procedures.	Hall® Surgical E9000® UltraPower® Hall® Osteon Hall® Ototome Coolflex® Surgairtome Two® SmartGuard®
Cardiothoracic	Powered sternum saws and related disposable accessories for use by cardiothoracic surgeons.	Hall® Surgical MicroPower® Micro 100™ PowerPro® PowerProMax™ MPower®

## Electrosurgery

Electrosurgery is routinely used to cut and coagulate tissue and small vessels in open and laparoscopic procedures using energy produced through radio frequency (RF) technology. The use of electrosurgical units and associated surgical tools is commonplace in the hospital surgical suite, surgery centers, clinics and physician offices. An electrosurgical system consists of three main components: an electrosurgical generator or ESU, an active electrode in the form of an electrosurgical pencil or instrument that is used to apply concentrated energy to the target tissues, and a dispersive electrode that grounds the patient and provides feedback to the ESU. Electrosurgery can be used in almost all surgical procedures including specialties such as general, gynecology, orthopedics, cardiology, thoracics, urology, neurology, and dermatology.

Also included in our portfolio of energy-based products is a technology using an argon beam for coagulation. CONMED ABC® products use argon gas and electrosurgical energy to allow the surgeon to produce a surface coagulation which results in less tissue damage. The electrical energy travels through an ionized column of gas so that the energy is applied to bleeding tissue in a non-contact mode. Clinicians have reported notable benefits of the ABC® products in certain procedures such as liver resection and trauma. In addition, certain handpieces allow the ABC® products to be used to dissect tissue through direct contact.

A new product in the electrosurgery business is an energy based vessel sealing system, Altrus Thermal Tissue Fusion. This system is unique in that it applies heat directly to the tissue rather than sending RF energy through the tissue. The Altrus system uses direct thermal (heat) to both seal and transect vessels and tissue bundles containing vessels. Most other energy based vessel sealing systems use mechanical knives to transect tissue and have the potential to jam the instrument or to tear tissue as the blade dulls. Altrus avoids those pitfalls. Because Altrus doesn't pass energy through the tissue, the heaters can be coated with Teflon to avoid the most common problem in vessel sealing, tissue sticking to the jaws.

Surgical smoke evacuation products are an emerging segment within the electrosurgical market. These systems consist of a smoke evacuation unit which suctions surgical smoke from the operative site and filters the smoke plume. It is connected to the ESU and uses specific electrosurgical smoke evacuation pencils and other collective devices. The use of electrosurgical pencils and lasers during a procedure may produce smoke and may affect the surgeon's ability to see the operative site clearly in both open and laparoscopic procedures.

Electrosurgery Product	Description	Brand Name
Pencils	Disposable and reusable surgical instruments designed to deliver high-frequency electrical energy to cut and/or coagulate tissue.	Hand-Trol® GoldLine™ GoldVac®
Ground Pads	Disposable ground pads which disperse electrosurgical energy and safely return it to the generator; available in adult, pediatric and infant sizes.	MacroLyte® ThermoGard® SureFit™
Active Electrodes	Surgical accessory electrodes that are inserted into electrosurgical pencils. These electrodes are available with and without the proprietary UltraClean™ coating which provides an easy to clean electrode surface during surgery.	UltraClean®
Generators	Monopolar and bipolar clinical energy sources for surgical procedures performed in a hospital, physician's office or clinical setting.	System 5000™ System 2450™ Hyfrecator® Sabre Genesis®
Argon Beam Coagulation Systems	Specialized electrosurgical generators, disposable hand pieces and ground pads for Argon Enhanced non-contact coagulation of tissues.	ABC® System 7550™ ABC® Flex Bend-A-Beam® ABC® Dissecting Electrodes™
Smoke Evacuation System	Dedicated unit and integrated hand pieces designed for the removal of surgical smoke in both open and laparoscopic procedures where electrosurgery is utilized.	GoldVac® ClearVac® AER DEFENSE®
Vessel Sealing System	A direct thermal based multi-functional surgical tool that seals, cuts, grasps and dissects vessels and tissue bundles.	Altrus®

#### Patient Care

Our patient care product line offering includes a line of vital signs and cardiac monitoring products including pulse oximetry equipment & sensors, ECG electrodes and cables, cardiac defibrillation & pacing pads and blood pressure cuffs. We also offer a complete line of suction instruments and tubing for use in the operating room, as well as a line of IV products for use in the critical care areas of the hospital.



Patient Care

Product	Description	Brand Name
ECG Monitoring	Line of disposable electrodes, monitoring cables, lead wire products and accessories designed to transmit ECG signals from the heart to an ECG monitor or recorder.	CONMED® Ultratrace® Cleartrace™
Surgical Suction Instruments and Tubing	Disposable surgical suction instruments and connecting tubing, including Yankauer, Poole, Frazier and Sigmoidoscopic instrumentation, for use by physicians in the majority of open surgical procedures.	CONMED®
Intravenous Therapy	Disposable IV drip rate gravity controller and disposable catheter stabilization dressing designed to hold and secure an IV needle or catheter for use in IV therapy.	VENI-GARD® MasterFlow™ Stat 2®
Defibrillator Pads and Accessories	Stimulation electrodes for use in emergency cardiac response and conduction studies of the heart.	PadPro® R2®
Pulse Oximetry	Used in critical care to continuously monitor a patient's arterial blood oxygen saturation and pulse rate.	Dolphin®
Non-invasive blood pressure cuff	Used in critical care to measure blood pressure.	SoftCheck® (CAS Medical Systems, Inc.) UltraCheck® (CAS Medical Systems, Inc.)

Endosurgery

Endosurgery (also referred to as minimally invasive surgery or laparoscopic surgery) is surgery performed without a major incision. This surgical specialty results in less trauma for the patient and produces important cost savings as a result of shorter recovery times and reduced hospitalization. Endosurgery is performed on organs in the abdominal cavity such as the gallbladder, appendix and female reproductive organs. During such procedures, devices called “trocars” are used to puncture the abdominal wall and are then removed, leaving in place a trocar cannula. The trocar cannula provides access into the abdomen for camera systems and surgical instruments. Some of our endosurgical instruments are “reposable”, meaning that the instrument has a disposable and a reusable component.

Our Endosurgical products include the Reflex® and PermaClip™ clip applicators for vessel and duct ligation, Universal S/I (suction/irrigation) and Universal Plus™ laparoscopic instruments and specialized suction/irrigation electro-surgical instrument systems for use in laparoscopic surgery. We also offer cutting and dilating trocars, suction/irrigation accessories, laparoscopic scissors, dissectors and graspers, active electrodes, insufflation needles and linear cutters and

staplers for use in laparoscopic surgery. Our disposable skin staplers are used to close large skin incisions with surgical staples, thus eliminating the time consuming suturing process. CONMED Endosurgery also offers a unique and premium uterine manipulator called VCARE® for use in increasing the efficiency of laparoscopic hysterectomies and other gynecologic laparoscopic procedures.

Endosurgery Product	Description	Brand Name
Trocars	Disposable and reusable devices used to puncture the abdominal wall providing access to the abdominal cavity for camera systems and instruments.	OnePort® TroGard Finesse® Reflex® Detach a Port™ CORE Entree®
Multi-functional Electrosurgery and Suction/Irrigation Instruments	Instruments for cutting and coagulating tissue by delivering high-frequency current. Instruments which deliver irrigating fluid to the tissue and remove blood and fluids from the internal operating field.	Universal™ Universal Plus™ FloVac®
Clip Appliers	Disposable and reusable devices for ligating blood vessels and ducts by placing a titanium clip on the vessel.	Reflex® PermaClip™
Laparoscopic Instruments	Scissors, graspers	DetachaTip®
Skin Staplers	Disposable devices which place surgical staples for closing a surgical incision.	Reflex®
Uterine Manipulators	Specialized elevator, retractor, manipulator for laparoscopic hysterectomy and other laparoscopic gynecological procedures.	VCARE®

#### Endoscopic Technologies

Gastrointestinal (GI) endoscopy is the examination of the digestive tract with a flexible, lighted instrument referred to as an "endoscope". This instrument enables the physician to directly visualize the esophagus, stomach, portions of the small intestine, and colon. This technology allows the physician to more accurately diagnose and treat diseases of the digestive system. Through these scopes a physician may take biopsies, dilate narrowed areas referred to as strictures, and remove polyps which are growths in the digestive tract. Some of the more common conditions which may be diagnosed and treated using this procedure include ulcers, Crohn's disease, ulcerative colitis and gallbladder disease.

We offer a comprehensive line of minimally invasive diagnostic and therapeutic products used in conjunction with procedures which require flexible endoscopy. Our principal customers include GI endoscopists, pulmonologists, and nurses who perform both diagnostic and therapeutic endoscopic procedures in hospitals and outpatient clinics.

Our primary focus is to identify, develop, acquire, manufacture and market differentiated medical devices, which improve outcomes in the diagnosis and treatment of gastrointestinal and pulmonary disorders. Our diagnostic and therapeutic product offerings for GI and pulmonology include mucosal management devices, forceps, scope management accessories, bronchoscopy devices, dilatation, stricture management devices, hemostasis, biliary devices, and polypectomy.





Endoscopic Technologies Product	Description	Brand Name
Pulmonary	Transbronchial Cytology and Histology Aspiration Needles, Disposable Biopsy Forceps, Cytology Brushes and Bronchoscope Cleaning Brushes	Wang® Blue Bullet® Precisor® Precisor BRONCHO® Precisor® EXL™ GARG™
Biopsy	Disposable biopsy forceps, Percutaneous Liver Biopsy instrument, Disposable Cytology Brushes	Precisor® OptiBite® Monopty® (C.R. Bard, Inc.)
Polypectomy	Disposable Polypectomy Snares, Retrieval Nets, Polyp Traps	Singular® Optimizer® Spider-Net® Orbit-Snare®
Biliary	Triple Lumen Stone Removal Balloons, Advanced Cannulation Triple Lumen Papillotomes, High Performance Biliary Guidewires, Cannulas, Biliary Balloon Dilators, Plastic and Self Expanding Metal Endoscopic Biliary Stents (SEMS)	Apollo® Apollo 3® Apollo 3AC® FXWire® XWire® Director® Duraglide™ Duraglide 3™ Flexxus® ProForma® HYDRODUCT® Viabil® (W. L. Gore & Associates, Inc.)
Dilation	Multi-Stage Balloon Dilators, American Dilation System	Eliminator®
Hemostasis	Endoscopic Injection Needles, Endoscopic and Multi-Band Ligators, Sclerotherapy Needle, Bipolar Hemostasis Probes	SureShot® Stiegmann-Goff™ Bandito™ Flexitip™ BICAP® BICAP SUPERCONDUCTOR® Click-Tip™ Beamer® Beamer® Mate Beamer® Plus

Endoscopic Ultrasound	Fine Needle Aspiration	Vizeon® Clearview™
Enteral Feeding	Initial Percutaneous Endoscopic Gastrostomy (PEG) systems, Replacement Tri-Funnel G-Tube	EnTake™
Accessories	Disposable Bite Blocks, Cleaning Brushes, Biopsy Caps, Biopsy Valves	Scope Saver® Channel Master™ Blue Bullet® Whistle® ClearGuard™

## Marketing

A significant portion of our products are distributed domestically directly to more than 6,000 hospitals and other healthcare institutions as well as through medical specialty distributors and surgeons. We are not dependent on any single customer and no single customer accounted for more than 10% of our net sales in 2010, 2011 and 2012.

A significant portion of our U.S. sales are to customers affiliated with GPOs, IHNs and other large national or regional accounts, as well as to the Veterans Administration and other hospitals operated by the Federal government. For hospital inventory management purposes, some of our customers prefer to purchase our products through independent third-party medical product distributors.

In order to provide a high level of expertise to the medical specialties we serve, our domestic sales force consists of the following:

- 40 employee sales representatives and 260 sales representatives working for independent sales agent groups selling arthroscopy and powered surgical instrument products;
- 40 employee sales representatives promoting Musculoskeletal Transplant Foundation's ("MTF") allograft tissue for sports medicine;
- 60 employee sales representatives selling electrosurgery products;
- 45 employee sales representatives selling endosurgery products;
- 50 employee sales representatives selling patient care products;
- 40 employee sales representatives selling endoscopic technologies products.

Each employee sales representative is assigned a defined geographic area and compensated on a commission basis or through a combination of salary and commission. The sales force is supervised and supported by either area directors or district managers. Sales agent groups are used in the United States to sell our arthroscopy, multi-specialty medical video systems and powered surgical instrument products. These sales agent groups are paid a commission for sales made to customers while home office sales and marketing management provide the overall direction for sales of our products.

Our Corporate sales organization is responsible for interacting with large regional and national accounts (e.g. GPOs, IHNs, etc.). We have contracts with many such organizations and believe that the loss of any individual group purchasing contract will not adversely impact our business. In addition, all of our sales professionals are required to work closely with distributors where applicable and maintain close relationships with end-users.

Each of our dedicated sales professionals is highly knowledgeable in the applications and procedures for the products they sell. Our sales professionals provide surgeons and medical personnel with information relating to the technical features and benefits of our products.

Maintaining and expanding our international presence is an important component of our long-term growth plan. Our products are sold in over 100 foreign countries. International sales efforts are coordinated through local country dealers or through direct in country sales. We distribute our products through sales subsidiaries and branches with offices located in Australia, Austria, Belgium, Canada, China, Denmark, Finland, France, Germany, Italy, Korea, the Netherlands, Poland, Spain, Sweden and the United Kingdom. In these countries, our sales are denominated in the local currency and amounted to approximately 35% of our total net sales in 2012. In the remaining countries where our products are sold through independent distributors, sales are denominated in United States dollars.

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

## Manufacturing

We manufacture substantially all of our products and assemble them from components, many of which we produce. Our strategy has historically been to vertically integrate our manufacturing facilities in order to develop a competitive advantage. This integration provides us with cost efficient and flexible manufacturing operations which permit us to allocate capital more efficiently. Additionally, we attempt to exploit commercial synergies between operations, such as the procurement of common raw materials and components used in production.

Raw material costs constitute a substantial portion of our cost of production. We use numerous raw materials and components in the design, development and manufacturing of our products. Substantially all of our raw materials and select

components used in the manufacturing process are procured from external suppliers. We work closely with multiple suppliers to ensure continuity of supply while maintaining high quality and reliability. None of our critical raw materials and components are procured from single sources for reasons of quality assurance, sole source availability, cost effectiveness or constraints resulting from regulatory requirements. The loss of any existing supplier or supplier contract would not have a material adverse effect on our financial and operational performance. To date, we have not experienced any protracted interruption in the availability of raw materials and components necessary to fulfill production schedules.

All of our products are classified as medical devices subject to regulation by numerous agencies and legislative bodies, including the United States Food and Drug Administration (“FDA”) and comparable foreign counterparts. The FDA’s Quality System Regulations set forth standards for our product design and manufacturing processes, require the maintenance of certain records and provide for on-site inspections of our facilities by the FDA. In many of the foreign countries in which we manufacture and distribute our products we are subject to regulatory requirements affecting, among other things, product performance standards, packaging requirements, labeling requirements, import laws and onsite inspection by independent bodies with the authority to issue or not issue certifications we may require to be able to sell products in certain countries. Regulatory requirements affecting the Company vary from country to country. The timeframes and costs for regulatory submission and approval from foreign agencies or legislative bodies may vary from those required by the FDA. Certain requirements for approval from foreign agencies or legislative bodies may also differ from those of the FDA.

We believe that our production and inventory management practices are characteristic of those in the medical device industry. Substantially all of our products are stocked in inventory and are not manufactured to order or to individual customer specifications. We schedule production and maintain adequate levels of safety stock based on a number of factors including, experience, knowledge of customer ordering patterns, demand, manufacturing lead times and optimal quantities required to maintain the highest possible service levels. Customer orders are generally processed for immediate shipment and backlog of firm orders is therefore not considered material to an understanding of our business.

#### Research and Development

New and improved products play a critical role in our continued sales growth. Internal research and development efforts focus on the development of new products and product technological and design improvements aimed at complementing and expanding existing product lines. We continually seek to leverage new technologies which improve the durability, performance and usability of existing products. In addition, we maintain close working relationships with surgeons, inventors and operating room personnel who often make new product and technology disclosures, principally in procedure-specific areas. For clinical and commercially promising disclosures, we seek to obtain rights to these ideas through negotiated agreements. Such agreements typically compensate the originator through payments based upon a percentage of licensed product net sales. Annual royalty expense approximated \$3.3 million, \$2.9 million and \$2.5 million in 2010, 2011, and 2012, respectively.

Amounts expended for Company research and development was approximately \$29.7 million, \$28.7 million and \$28.2 million during 2010, 2011, and 2012, respectively.

We have rights to intellectual property, including United States patents and foreign equivalent patents which cover a wide range of our products. We own a majority of these patents and have exclusive and non-exclusive licensing rights to the remainder. In addition, certain of these patents have currently been licensed to third parties on a non-exclusive basis. We believe that the development of new products and technological and design improvements to existing products will continue to be of primary importance in maintaining our competitive position.

## Competition

The market for our products is highly competitive and our customers generally have numerous alternatives of supply. Many of our competitors offer a range of products in areas other than those in which we compete, which may make such competitors more attractive to surgeons, hospitals, group purchasing organizations and others. In addition, several of our competitors are large, technically-competent firms with substantial assets.

The following chart identifies our principal competitors in each of our key business areas:

Business Area	Competitor
Arthroscopy	Smith & Nephew, plc Arthrex, Inc. Stryker Corporation ArthroCare Corporation Johnson & Johnson: DePuy Mitek, Inc. Biomet, Inc.
Powered Surgical Instruments	Stryker Corporation Medtronic, Inc. Midas Rex and Xomed divisions Synvasive Technology, Inc. Synthes, Inc. MicroAire Surgical Instruments, LLC Zimmer Holdings, Inc.
Electrosurgery	Covidien Ltd.; Valleylab Medline Industries, Inc. ERBE Elektromedizin GmbH Megadyne
Patient Care	Covidien Ltd.: Kendall 3M Company
Endosurgery	Johnson & Johnson: Ethicon Endo-Surgery, Inc. Covidien Ltd.; U.S.Surgical Applied Medical Resources Corporation
Endoscopic Technologies	Boston Scientific Corporation – Endoscopy Wilson-Cook Medical, Inc. Olympus America, Inc. STERIS Corporation - U.S. Endoscopy

Factors which affect our competitive posture include product design, customer acceptance, service and delivery capabilities, pricing and product development/improvement. In the future, other alternatives such as new medical procedures or pharmaceuticals may become interchangeable alternatives to our products.

#### Government Regulation and Quality Systems

Substantially all of our products are classified as class II medical devices subject to regulation by numerous agencies and legislative bodies, including the FDA and comparable foreign counterparts. Authorization to commercially market our products in the U.S. is granted by the FDA under a procedure referred to as 510(k) premarket notification. This process requires us to demonstrate that our new products or significantly modified products are substantially equivalent to a legally marketed device which was on the market prior to May 28, 1976 or is currently on

the U.S. market and does not require premarket approval. We must continually meet certain FDA requirements to market our products in the United States. (Our products are classified as Class I, IIa, IIb and III in the European Union (EU) and subject to regulation by the Medical Device Directive.). Our FDA clearance is subject to continual review and future discovery of previously unknown events could result in restrictions being placed on a product's marketing or notification from the FDA to halt the distribution of certain medical devices.

Medical device regulations continue to evolve world-wide. Products marketed in the EU and other countries require preparation of technical files and design dossiers which demonstrate compliance with applicable international regulations. Products marketed in Australia are subject to a new classification system and have been re-registered under the updated Therapeutics Goods Act in 2007. Products marketed in Japan must be re-registered under the Ministry of Health's recently updated Pharmaceutical



Affairs Law (PAL). As government regulations continue to change, there is a risk that the distribution of some of our products may be interrupted or discontinued if they do not meet the new requirements.

Our operations are supported by quality system/regulatory compliance personnel tasked with monitoring compliance to design controls, process controls and the other relevant government regulations for all of our design, manufacturing, distribution and servicing activities. We and substantially all of our products are subject to the provisions of the Federal Food, Drug and Cosmetic Act of 1938, as amended by the Medical Device Amendments of 1976, Safe Medical Device Act of 1990, Medical Device Modernization Act of 1997, Medical User Fee and Modernization Act of 2002 and similar international regulations, such as the European Union Medical Device Directives.

As a manufacturer of medical devices, the FDA's Quality System Regulations as specified in Title 21, Code of Federal Regulation (CFR) part 820, set forth requirements for our product design and manufacturing processes, require the maintenance of certain records, provide for on-site inspection of our facilities and continuing review by the FDA. Many of our products are also subject to industry-defined standards. Such industry-defined product standards are generally formulated by committees of the Association for the Advancement of Medical Instrumentation (AAMI), International Electrotechnical Commission (IEC) and the International Organization for Standardization (ISO). We believe that our products and processes presently meet applicable standards in all material respects.

As noted above, our facilities are subject to periodic inspection by the FDA for, among other things, conformance to Quality System Regulation and Current Good Manufacturing Practice ("CGMP") requirements. Following an inspection, the FDA typically provides its observations, if any, in the form of a Form 483 (Notice of Inspectional Observations) with specific observations concerning potential violation of regulations. Although we respond to all Form 483 observations and correct deficiencies expeditiously, there can be no assurance that the FDA will not take further action including issuing a warning letter, seizing product and imposing fines. We market our products in several foreign countries and therefore are subject to regulations affecting, among other things, product standards, sterilization, packaging requirements, labeling requirements, import laws and onsite inspection by independent bodies with the authority to issue or not issue certifications we may require to be able to sell products in certain countries. Many of the regulations applicable to our devices and products in these countries are similar to those of the FDA. The member countries of the European Union have adopted the European Medical Device Directives, which create a single set of medical device regulations for all member countries. These regulations require companies that wish to manufacture and distribute medical devices in the European Union maintain quality system certification through European Union recognized Notified Bodies. These Notified Bodies authorize the use of the CE Mark allowing free movement of our products throughout the member countries. Requirements pertaining to our products vary widely from country to country, ranging from simple product registrations to detailed submissions such as those required by the FDA. We believe that our products and quality procedures currently meet applicable standards for the countries in which they are marketed.

Our products may become subject to recall or market withdrawal regulations and we have made product recall decisions in the past. No product recall has had a material effect on our financial condition, however there can be no assurance that regulatory issues will not have a material adverse effect in the future.

Any change in existing federal, state, foreign laws or regulations, or in the interpretation or enforcement thereof, or the promulgation or any additional laws or regulations may result in a material adverse effect on our financial condition, results of operations or cash flows.

#### Employees

As of December 31, 2012, we had approximately 3,600 full-time employees, including approximately 2,100 in operations, 120 in research and development, and the remaining in sales, marketing and related administrative

support. We believe that we have good relations with our employees and have never experienced a strike or similar work stoppage. None of our domestic employees are represented by a labor union.

Item 1A. Risk Factors

An investment in our securities, including our common stock, involves a high degree of risk. Investors should carefully consider the specific factors set forth below as well as the other information included or incorporated by reference in this Form 10-K. See “Forward Looking Statements”.

Our financial performance is dependent on conditions in the healthcare industry and the broader economy.

The results of our business are directly tied to the economic conditions in the health care industry and the broader economy as a whole. Significant volatility in the financial markets and foreign currency exchange rates and 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 and are cautiously optimistic that the domestic economic environment is improving, conditions in Europe and elsewhere may present significant business challenges for the Company, and there can be no assurance that improvement in the overall economic environment will be sustained. Approximately 20% of our revenues are derived from the sale of capital products. The sales of such products are negatively impacted if hospitals and other healthcare providers are unable to secure the financing necessary to purchase these products or otherwise defer purchases.

Our significant international operations subject us to foreign currency fluctuations and other risks associated with operating in foreign countries.

A significant portion of our revenues are derived from foreign sales. Approximately 50% of our total 2012 consolidated net sales were to customers outside the United States. We have sales subsidiaries in a significant number of countries in Europe as well as Australia, Canada, China and Korea. In those countries in which we have a direct presence, our sales are denominated in the local currency and those sales denominated in local currency amounted to approximately 35% of our total net sales in 2012. The remaining 15% of sales to customers outside the United States was on an export basis and transacted in United States dollars.

Because a significant portion of our operations consist of sales activities in foreign jurisdictions, our financial results may be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the markets in which we distribute products. While we have implemented a hedging strategy, our revenues may be unfavorably impacted from foreign currency translation if the United States dollar strengthens as compared with currencies such as the Euro. Our international presence exposes us to certain other inherent risks, including:

- imposition of limitations on conversions of foreign currencies into dollars or remittance of dividends and other payments by international subsidiaries;
- imposition or increase of withholding and other taxes on remittances and other payments by international subsidiaries;
- trade barriers;
- political risks, including political instability;
- reliance on third parties to distribute our products;
- hyperinflation in certain foreign countries; and
- imposition or increase of investment and other restrictions by foreign governments.

We cannot assure you that such risks will not have a material adverse effect on our business and results of operations.

Our financial performance is subject to the risks inherent in our acquisition strategy, including the effects of increased borrowing and integration of newly acquired businesses or product lines.

A key element of our business strategy has been to expand through acquisitions and we may seek to pursue additional acquisitions in the future. Our success is dependent in part upon our ability to integrate acquired companies or product lines into our existing operations. We may not have sufficient management and other resources to accomplish the integration of our past and future acquisitions and implementing our acquisition strategy may strain our relationship with customers, suppliers, distributors, manufacturing personnel or others. There can be no assurance that we will be able to identify and make acquisitions on acceptable terms or that we will be able to obtain financing for such acquisitions on acceptable terms. In addition, while we are generally entitled to customary indemnification from sellers of businesses for any difficulties that may have arisen prior to our acquisition of each business, acquisitions may involve exposure to unknown liabilities and the amount and time for claiming under these indemnification

provisions is often limited. As a result, our financial performance is now and will continue to be subject to various risks associated with the acquisition of businesses, including the financial effects associated with any increased borrowing required to fund such acquisitions or with the integration of such businesses.

Our financial performance may be adversely impacted by the recently passed healthcare reform legislation.

The Patient Protection and Affordable Care Act and Health Care and Education Affordability Reconciliation Act were enacted into law in the U.S. in March 2010. Effective January 1, 2013, as part of this legislation, a 2.3% excise tax is imposed upon sales within the U.S. of certain medical device products. We anticipate that this excise tax will result in an additional expense of approximately 0.8% to 1.0% of total global sales. If we are unable to raise prices or otherwise pass through this tax to our customers, this enacted excise tax on medical devices could materially and adversely affect our results of operations and cash flows. Other provisions of this legislation, including Medicare provisions aimed at improving quality and decreasing costs, comparative effectiveness research, an independent payment advisory board, and pilot programs to evaluate alternative payment

methodologies, could meaningfully change the way health care is developed and delivered, and may adversely affect our business and results of operations. Alternatively, this legislation purports to increase the size of the market for our products, potentially offsetting other negative impacts of the legislation. Further, we cannot predict what healthcare programs and regulations will be ultimately implemented at the federal or state level, or the effect of any future legislation or regulation in the U.S. or internationally. However, any changes that lower reimbursements for our products or reduce medical procedure volumes could adversely affect our results of operations and cash flows.

Failure to comply with regulatory requirements may result in recalls, fines or materially adverse implications.

Substantially all of our products are classified as class II medical devices subject to regulation by numerous agencies and legislative bodies, including the FDA and comparable foreign counterparts. As a manufacturer of medical devices, our manufacturing processes and facilities are subject to on-site inspection and continuing review by the FDA for compliance with the Quality System Regulations. Manufacturing and sales of our products outside the United States are also subject to foreign regulatory requirements which vary from country to country. Moreover, we are generally required to obtain regulatory clearance or approval prior to marketing a new product. The time required to obtain approvals from foreign countries may be longer or shorter than that required for FDA clearance, and requirements for foreign approvals may differ from FDA requirements. Failure to comply with applicable domestic and/or foreign regulatory requirements may result in:

- fines or other enforcement actions;
- recall or seizure of products;
- total or partial suspension of production;
- loss of certification;
- withdrawal of existing product approvals or clearances;
- refusal to approve or clear new applications or notices;
- increased quality control costs; or
- criminal prosecution.

Failure to comply with Quality System Regulations and applicable foreign regulations could result in a material adverse effect on our business, financial condition or results of operations.

If we are not able to manufacture products in compliance with regulatory standards, we may decide to cease manufacturing of those products and may be subject to product recall.

In addition to the Quality System Regulations, many of our products are also subject to industry-defined standards. We may not be able to comply with these regulations and standards due to deficiencies in component parts or our manufacturing processes. If we are not able to comply with the Quality System Regulations or industry-defined standards, we may not be able to fill customer orders and we may decide to cease production of non-compliant products. Failure to produce products could affect our profit margins and could lead to loss of customers.

Our products are subject to product recall and we have made product recalls in the past. Although no recall has had a material adverse effect on our business or financial condition, we cannot assure you that regulatory issues will not have a material adverse effect on our business, financial condition or results of operations in the future or that product recalls will not harm our reputation and our customer relationships.

The highly competitive market for our products may create adverse pricing pressures.

The market for our products is highly competitive and our customers have numerous alternatives of supply. Many of our competitors offer a range of products in areas other than those in which we compete, which may make such

competitors more attractive to surgeons, hospitals, group purchasing organizations and others. In addition, several of our competitors are large, technically competent firms with substantial assets. Competitive pricing pressures or the introduction of new products by our competitors could have an adverse effect on our revenues. See “Competition” for a further discussion of these competitive forces.

Factors which may influence our customers’ choice of competitor products include:

- changes in surgeon preferences;
- increases or decreases in health care spending related to medical devices;
- our inability to supply products to them, as a result of product recall, market withdrawal or back-order;
- the introduction by competitors of new products or new features to existing products;
- the introduction by competitors of alternative surgical technology; and

- advances in surgical procedures, discoveries or developments in the health care industry.

We use a variety of raw materials in our businesses, and significant shortages or price increases could increase our operating costs and adversely impact the competitive positions of our products.

Our reliance on certain suppliers and commodity markets to secure raw materials used in our products exposes us to volatility in the prices and availability of raw materials. In some instances, we participate in commodity markets that may be subject to allocations by suppliers. A disruption in deliveries from our suppliers, price increases, or decreased availability of raw materials or commodities, could have an adverse effect on our ability to meet our commitments to customers or increase our operating costs. We believe that our supply management practices are based on an appropriate balancing of the foreseeable risks and the costs of alternative practices. Nonetheless, price increases or the unavailability of some raw materials may have an adverse effect on our results of operations or financial condition.

Cost reduction efforts in the healthcare industry could put pressures on our prices and margins.

In recent years, the healthcare industry has undergone significant change driven by various efforts to reduce costs. Such efforts include national healthcare reform, trends towards managed care, cuts in Medicare, consolidation of healthcare distribution companies and collective purchasing arrangements by GPOs and IHNs. Demand and prices for our products may be adversely affected by such trends.

We may not be able to keep pace with technological change or to successfully develop new products with wide market acceptance, which could cause us to lose business to competitors.

The market for our products is characterized by rapidly changing technology. Our future financial performance will depend in part on our ability to develop and manufacture new products on a cost-effective basis, to introduce them to the market on a timely basis, and to have them accepted by surgeons.

We may not be able to keep pace with technology or to develop viable new products. Factors which may result in delays of new product introductions or cancellation of our plans to manufacture and market new products include:

- capital constraints;
- research and development delays;
- delays in securing regulatory approvals; or
- changes in the competitive landscape, including the emergence of alternative products or solutions which reduce or eliminate the markets for pending products.

Our new products may fail to achieve expected levels of market acceptance.

New product introductions may fail to achieve market acceptance. The degree of market acceptance for any of our products will depend upon a number of factors, including:

- our ability to develop and introduce new products and product enhancements in the time frames we currently estimate;
- our ability to successfully implement new technologies;
- the market's readiness to accept new products;
- having adequate financial and technological resources for future product development and promotion;
- the efficacy of our products; and
- the prices of our products compared to the prices of our competitors' products.

If our new products do not achieve market acceptance, we may be unable to recover our investments and may lose business to competitors.

In addition, some of the companies with which we now compete or may compete in the future have or may have more extensive research, marketing and manufacturing capabilities and significantly greater technical and personnel resources than we do, and may be better positioned to continue to improve their technology in order to compete in an evolving industry. See “Competition” for a further discussion of these competitive forces.

Our senior credit agreement contains covenants which may limit our flexibility or prevent us from taking actions.



Our senior credit agreement contains, and future credit facilities are expected to contain, certain restrictive covenants which will affect, and in many respects significantly limit or prohibit, among other things, our ability to:

- incur indebtedness;
- make investments;
- engage in transactions with affiliates;
- pay dividends or make other distributions on, or redeem or repurchase, capital stock;
- sell assets; and
- pursue acquisitions.

These covenants, unless waived, may prevent us from pursuing acquisitions, significantly limit our operating and financial flexibility and limit our ability to respond to changes in our business or competitive activities. Our ability to comply with such provisions may be affected by events beyond our control. In the event of any default under our credit agreement, the credit agreement lenders may elect to declare all amounts borrowed under our credit agreement, together with accrued interest, to be due and payable. If we were unable to repay such borrowings, the credit agreement lenders could proceed against collateral securing the credit agreement, which consists of substantially all of our property and assets. Our credit agreement also contains a material adverse effect clause which may limit our ability to access additional funding under our credit agreement should a material adverse change in our business occur.

Our leverage and debt service requirements may require us to adopt alternative business strategies.

As of December 31, 2012, we had \$161.9 million of debt outstanding, representing 21% of total capitalization. On January 17, 2013, we entered into an amended and restated credit agreement which expands the line of credit to \$350.0 million. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” and Note 17 to our Consolidated Financial Statements.

The degree to which we are leveraged could have important consequences to investors, including but not limited to the following:

- a portion of our cash flow from operations must be dedicated to debt service and will not be available for operations, capital expenditures, acquisitions, dividends and other purposes;
- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or general corporate purposes may be limited or impaired, or may be at higher interest rates;
- we may be at a competitive disadvantage when compared to competitors that are less leveraged;
- we may be hindered in our ability to adjust rapidly to market conditions;
- our degree of leverage could make us more vulnerable in the event of a downturn in general economic conditions or other adverse circumstances applicable to us; and
- our interest expense could increase if interest rates in general increase because a portion of our borrowings, including our borrowings under our credit agreement, are and will continue to be at variable rates of interest.

We may not be able to generate sufficient cash to service our indebtedness, which could require us to reduce our expenditures, sell assets, restructure our indebtedness or seek additional equity capital.

Our ability to satisfy our obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We may not have sufficient cash flow available to enable us to meet our obligations. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as foregoing acquisitions, reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or

seeking additional equity capital. We cannot assure you that any of these strategies could be implemented on terms acceptable to us, if at all. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" for a discussion of our indebtedness and its implications.

We rely on a third party to obtain, process and distribute sports medicine allograft tissue. If such tissue cannot be obtained, is not accepted by the market or is not accepted under numerous government regulations, our results of operations could be negatively impacted.

As described in Note 4 to the Consolidated Financial Statements, on January 3, 2012, we entered into an agreement with Musculoskeletal Transplant Foundation ("MTF") to obtain MTF's worldwide promotional rights with respect to allograft tissues within the field of sports medicine. The supply of human tissue is dependent on donors and MTF has numerous relationships with donor groups. Likewise, the supply of tissues available for use as allografts depends on the continued successful processing of donated tissues by MTF at its processing facilities. We cannot be certain, however, that the supply of human tissue will continue

to be available at current levels or will be of sufficiently high standards to meet the high processing standards maintained for such tissues by MTF, or in volumes sufficient to meet our customers' needs, or that MTF will be able to continue to process tissues to its high standards in volumes sufficient to keep pace with demand. We expect that the Company's share of revenue streams related to MTF's sports medicine allograft product line would decline in proportion to any decline or disruption in the supply of processed tissues.

The FDA and several states have statutory authority to regulate allograft processing and allograft-based materials. The FDA could identify deficiencies in future inspections of MTF or MTF's suppliers or promulgate future regulatory rulings that could disrupt our business, reducing profitability.

If we infringe third parties' patents, or if we lose our patents or they are held to be invalid, we could become subject to liability and our competitive position could be harmed.

Much of the technology used in the markets in which we compete is covered by patents. We have numerous U.S. patents and corresponding foreign patents on products expiring at various dates from 2013 through 2030 and have additional patent applications pending. See "Research and Development" for a further description of our patents. The loss of our patents could reduce the value of the related products and any related competitive advantage. Competitors may also be able to design around our patents and to compete effectively with our products. In addition, the cost of enforcing our patents against third parties and defending our products against patent infringement actions by others could be substantial. We cannot assure you that:

- pending patent applications will result in issued patents;
- patents issued to or licensed by us will not be challenged by competitors;
- our patents will be found to be valid or sufficiently broad to protect our technology or provide us with a competitive advantage; or
- we will be successful in defending against pending or future patent infringement claims asserted against our products.

Ordering patterns of our customers may change resulting in reductions in sales.

Our hospital and surgery center customers purchase our products in quantities sufficient to meet their anticipated demand. Likewise, our health care distributor customers purchase our products for ultimate resale to health care providers in quantities sufficient to meet the anticipated requirements of the distributors' customers. Should inventories of our products owned by our hospital, surgery center and distributor customers grow to levels higher than their requirements, our customers may reduce the ordering of products from us. This could result in reduced sales during a financial accounting period.

We can be sued for producing defective products and our insurance coverage may be insufficient to cover the nature and amount of any product liability claims.

The nature of our products as medical devices and today's litigious environment should be regarded as potential risks which could significantly and adversely affect our financial condition and results of operations. The insurance we maintain to protect against claims associated with the use of our products have deductibles and may not adequately cover the amount or nature of any claim asserted against us. We are also exposed to the risk that our insurers may become insolvent or that premiums may increase substantially. See "Legal Proceedings" for a further discussion of the risk of product liability actions and our insurance coverage.

Damage to our physical properties as a result of windstorm, earthquake, fire or other natural or man-made disaster may cause a financial loss and a loss of customers.

Although we maintain insurance coverage for physical damage to our property and the resultant losses that could occur during a business interruption, we are required to pay deductibles and our insurance coverage is limited to certain caps. For example, our deductible for windstorm damage to our Florida property amounts to 2% of any loss.

Further, while insurance reimburses us for our lost gross earnings during a business interruption, if we are unable to supply our customers with our products for an extended period of time, there can be no assurance that we will regain the customers' business once the product supply is returned to normal.

## Item 2. Properties

## Facilities

The following table sets forth certain information with respect to our principal operating facilities. We believe that our facilities are generally well maintained, are suitable to support our business and adequate for present and anticipated needs.

Location	Square Feet	Own or Lease	Lease Expiration
Utica, NY	500,000	Own	—
Largo, FL	278,000	Own	—
Centennial, CO	87,500	Own	—
Tampere, Finland	5,662	Own	—
Chihuahua, Mexico	207,720	Lease	September 2019
Lithia Springs, GA	188,400	Lease	December 2019
Brussels, Belgium	45,531	Lease	June 2015
Mississauga, Canada	22,378	Lease	December 2013
Westborough, MA	18,210	Lease	September 2015
Frenchs Forest, Australia	16,909	Lease	July 2015
Tampere, Finland	15,855	Lease	Open Ended
Seoul, Korea	15,554	Lease	January 2014
Anaheim, CA	14,037	Lease	September 2015
Frankfurt, Germany	13,606	Lease	March 2023
Milan, Italy	13,024	Lease	March 2017
Swindon, Wiltshire, UK	8,562	Lease	December 2015
Askim, Sweden	8,353	Lease	May 2016
Rungis Cedex, France	7,406	Lease	December 2016
Montreal, Canada	7,232	Lease	March 2016
Copenhagen, Denmark	5,899	Lease	April 2014
Shepshed, Leicestershire, UK	5,770	Lease	October 2015
Barcelona, Spain	5,382	Lease	December 2013
New York, NY	3,473	Lease	September 2022
Beijing, China	3,456	Lease	June 2014
Warsaw, Poland	3,222	Lease	February 2018
Espoo, Finland	3,078	Lease	Open Ended
San Mateo, CA	3,068	Lease	December 2013
Shanghai, China	2,269	Lease	February 2015
Edison, NJ	2,000	Lease	December 2014
Innsbruck, Austria	1,820	Lease	June 2020

## Item 3. 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 required as a matter of law. In some cases we may be entitled to indemnification by third parties. When there is no insurance coverage, as would typically be the case primarily in lawsuits alleging patent infringement or in connection with certain government investigations, or indemnification obligations of a third party, we establish reserves sufficient to cover probable losses associated with such 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 CONMED Linvatec. The Complaint asserts that certain CONMED Linvatec products infringe patents allegedly owned by Bonutti Skeletal Innovations. On the same day that it sued CONMED, Bonutti Skeletal Innovations sued several other orthopedic companies. CONMED and CONMED Linvatec believe that the products in question do not infringe the patents-in-suit, and CONMED and CONMED Linvatec intend to vigorously defend the claims. A range of potential losses cannot be estimated at this time.

#### Item 4. Mine Safety Disclosures

Not applicable.

#### PART II

#### Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock, par value \$.01 per share, is traded on the Nasdaq Stock Market under the symbol "CNMD". At January 31, 2013, there were 791 registered holders of our common stock and approximately 5,426 accounts held in "street name".

The following table sets forth quarterly high and low sales prices for the years ended December 31, 2011 and 2012, as reported by the Nasdaq Stock Market.

Period	2011	
	High	Low
First Quarter	\$27.47	\$25.33
Second Quarter	29.00	25.99
Third Quarter	29.38	20.81
Fourth Quarter	27.83	24.19
Period	2012	
	High	Low
First Quarter	\$30.47	\$26.00
Second Quarter	30.42	26.03

Edgar Filing: CONMED CORP - Form 10-K

Third Quarter	29.25	25.85
Fourth Quarter	29.33	25.71

Our Board of Directors has authorized a share repurchase program as noted below; also see Note 7 to the Consolidated Financial Statements. The following table provides information about Company purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended December 31, 2012:



## ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share <sup>1</sup>	(c) Total Number of Shares Purchased as Part of Publicly Announced Program <sup>2</sup>	(d) Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program
October 1, 2012 to October 31, 2012	30,297	\$27.22	30,297	\$107,956,000
November 1, 2012 to November 30, 2012	114,104	\$27.15	114,104	104,858,000
December 1, 2012 to December 31, 2012	—	\$—	—	104,858,000
Total	144,401		144,401	

<sup>1</sup>Average price paid per share includes cash paid for commissions.

<sup>2</sup>Our Board of Directors authorized a \$200.0 million share repurchase program. There is no expiration date governing the period over which the Company can make its share repurchases under the share repurchase program.

On February 29, 2012, the Board of Directors adopted a cash dividend policy and declared an initial quarterly dividend of \$0.15 per share. The initial quarterly dividend of \$4.3 million was paid on April 5, 2012 to shareholders of record as of March 15, 2012. The second quarter dividend for 2012 of \$4.3 million was paid on July 6, 2012 to shareholders of record as of June 15, 2012. The third quarter dividend for 2012 of \$4.3 million was paid on October 5, 2012 to shareholders of record as of September 14, 2012. The fourth quarter dividend for 2012 was paid on January 7, 2013 to shareholders of record as of December 17, 2012. The total dividend payable at December 31, 2012 was \$4.3 million and is included in other current liabilities in the consolidated balance sheet. Future decisions as to the payment of dividends will be at the discretion of the Board of Directors, subject to conditions then existing, including our financial requirements and condition and the limitation and payment of cash dividends contained in debt agreements.

Information relating to compensation plans under which equity securities of CONMED Corporation are authorized for issuance is set forth below:

## Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	2,289,951	\$25.35	1,424,766
Equity compensation plans not approved by security	—	—	—

holders  
Total

2,289,951

\$25.35

1,424,766

25

---

## Performance Graph

The performance graph below compares the yearly percentage change in the Company's Common Stock with the cumulative total return of the NASDAQ Composite Index and the cumulative total return of the Standard & Poor's Health Care Equipment Index. In each case, the cumulative total return assumes reinvestment of dividends into the same class of equity securities at the frequency with which dividends are paid on such securities during the applicable fiscal year.

## Item 6. Selected Financial Data

The following table sets forth selected historical financial data for the years ended December 31, 2008, 2009, 2010, 2011 and 2012. The financial data set forth below should be read in conjunction with the information under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Item 7 of this Form 10-K and the Financial Statements of the Company and the notes thereto.

## FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA (AS ADJUSTED) (1)

	Years Ended December 31,				
	2008	2009	2010	2011	2012
	(in thousands, except per share data)				
Statements of Operations Data (2):					
Net sales	\$742,183	\$694,739	\$713,723	\$725,077	\$767,140
Cost of sales (3)	359,802	357,407	348,339	350,143	361,297
Gross profit	382,381	337,332	365,384	374,934	405,843
Selling and administrative	272,437	266,310	276,463	276,615	302,469
Research and development	33,108	31,837	29,652	28,651	28,214
Impairment of goodwill (4)	—	—	—	60,302	—
Other expense (5)	1,577	10,916	2,176	1,092	9,950
Income from operations	75,259	28,269	57,093	8,274	65,210
Gain (loss) on early extinguishment of debt (6)	1,947	1,083	(79	) —	—
Amortization of debt discount	4,823	4,111	4,244	3,903	—
Interest expense	10,372	7,086	7,113	6,676	5,730
Income (loss) before income taxes	62,011	18,155	45,657	(2,305	) 59,480
Provision (benefit) for income taxes	22,022	6,018	15,311	(3,057	) 18,999
Net income	\$39,989	\$12,137	\$30,346	\$752	\$40,481
Per Share Data					
Basic earnings per share	\$1.39	\$.42	\$1.06	\$.03	\$1.43
Diluted earnings per share	\$1.37	\$.42	\$1.05	\$.03	\$1.41
Dividends per share of common stock	\$—	\$—	\$—	\$—	\$.60
Weighted Average Number of Common Shares In Calculating:					
Basic earnings per share	28,796	29,074	28,715	28,246	28,301
Diluted earnings per share	29,227	29,142	28,911	28,633	28,653
Other Financial Data:					
Depreciation and amortization	\$37,159	\$41,283	\$41,807	\$42,687	\$46,616
Capital expenditures	35,879	21,444	14,732	17,552	21,532
Balance Sheet Data (at period end):					
Cash and cash equivalents	\$11,811	\$10,098	\$12,417	\$26,048	\$23,720

Edgar Filing: CONMED CORP - Form 10-K

Total assets	931,661	958,413	985,773	935,594	1,084,462
Long-term obligations	316,532	302,791	219,344	231,339	354,956
Total shareholders' equity	540,215	576,515	586,563	573,071	606,998

27

---

(1) In May 2008, the FASB issued guidance which specifies that issuers of convertible debt instruments that permit or require the issuer to pay cash upon conversion should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The Company is required to apply the guidance retrospectively to all past periods presented. We adopted this guidance on January 1, 2009 related to our 2.50% convertible senior subordinated notes due 2024 ("the Notes").

(2) Results of operations of acquired businesses have been recorded in the financial statements since the date of acquisition.

(3) Includes acquisition and acquisition-transition related charges of \$1.0 million in 2008. Also in 2009, 2010, 2011 and 2012, charges related to the restructuring of certain of our operations of \$11.9 million, \$2.4 million, \$3.5 million and \$7.1 million, respectively; in 2010 charges of \$2.5 million related to the termination of a product offering in our CONMED Linvatec operating segment. See additional discussion in Note 15 to the Consolidated Financial Statements.

(4) During 2011, we recorded a \$60.3 million charge for the impairment of goodwill related to the Patient Care business unit. Refer to Note 4 to the Consolidated Financial Statements for further details.

(5) Other expense includes the following:

	2008	2009	2010	2011	2012
New plant/facility consolidation	\$1,577	\$2,726	\$—	\$—	\$—
Net pension gain	—	(1,882)	—	—	—
Product recall	—	5,992	—	—	—
Administrative consolidation costs	—	4,080	2,176	792	6,497
Costs associated with purchase of a distributor	—	—	—	300	704
Costs associated with legal arbitration	—	—	—	—	1,555
Costs associated with purchase of a business	—	—	—	—	1,194
Other expense	\$1,577	\$10,916	\$2,176	\$1,092	\$9,950

See additional discussion in Note 11 to the Consolidated Financial Statements.

(6) Includes in 2010, a charge of \$0.1 million related to a loss on early extinguishment of debt. Includes in 2008 and 2009, gains of \$1.9 million and \$1.1 million, respectively, on early extinguishment of debt. See additional discussion in Note 5 to the Consolidated Financial Statements.

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

The following discussion should be read in conjunction with Selected Financial Data (Item 6), and our Consolidated Financial Statements and related notes contained elsewhere in this report.

### Overview of CONMED Corporation

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. These product lines and the percentage of consolidated revenues associated with each, are as follows:

	2010		2011		2012	
Arthroscopy	40	%	40	%	43	%
Powered Surgical Instruments	20		20		20	
Electrosurgery	14		14		12	
Endosurgery	9		10		10	
Patient Care	10		9		8	
Endoscopic Technologies	7		7		7	
Consolidated Net Sales	100	%	100	%	100	%

A significant amount of our products are used in surgical procedures with approximately 80% of our revenues derived from the sale of disposable products. Our capital equipment offerings also facilitate the ongoing sale of related disposable products and accessories, thus providing us with a recurring revenue stream. 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 approximated 48%, 50% and 50% in 2010, 2011 and 2012, respectively.

### 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.

#### 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 and are cautiously optimistic that the domestic economic environment is improving, 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 describes the 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.

#### 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.

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.

Service revenues earned by the Company related to the sale of sports medicine allograft tissue are recorded in accordance with the contractual terms of our agreement with Musculoskeletal Transplant Foundation (“MTF”). These revenues are recorded net of amortization of the acquired assets.

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 included in selling and administrative expense were \$12.1 million, \$13.0 million and \$12.8 million for 2010, 2011 and 2012, respectively.

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 \$1.2 million at December 31, 2012 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. Other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. We have accumulated goodwill of \$256.8 million and other intangible assets of \$190.8 million as of December 31, 2012.

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 reporting units. 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. Our last goodwill impairment testing, performed as of October 1, 2011, under the Step 1 method for our CONMED Electrosurgery, CONMED Endosurgery and CONMED Linvatec reporting units, utilized CONMED Corporation's EBITDA multiple adjusted for a market-based control premium with the resultant fair values exceeding carrying values by 42% to 107%. Based upon our qualitative assessment, we believe the fair value of these reporting units continue to exceed carrying values by a substantial margin.

During 2011, we estimated the fair value of the CONMED Patient Care reporting unit utilizing both a market-based approach and an income approach. Under the income approach, we utilized a discounted cash flow valuation methodology and measured the goodwill impairment in accordance with ASC 350. The first step of the impairment test determined the carrying value exceeded fair value and therefore we proceeded to Step 2. Under Step 2, we calculated the amount of impairment loss by measuring the amount the carrying value of goodwill exceeded the implied fair value of the goodwill. We determined the goodwill of our CONMED Patient Care reporting unit was impaired as a result of lower future earnings due to pricing pressures in a number of our product lines and

consequently we recorded a goodwill impairment charge of \$60.3 million to reduce the carrying amount of the reporting unit's goodwill to its implied fair value.

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.

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.

See Note 4 to the Consolidated Financial Statements for further discussion of goodwill and other intangible assets.

#### Pension Plan

We sponsor a defined benefit pension plan covering substantially all our United States based employees. The pension plan was frozen during the first quarter of 2009. Major assumptions used in accounting for the plan include the discount rate, expected return on plan assets, rate of increase in employee compensation levels 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 match precisely 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.

Pension expense in 2013 is expected to be \$1.0 million compared to expense of \$2.0 million in 2012. In addition, we expect to contribute approximately \$7.5 million to the pension plan for the 2013 plan year.

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

#### 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 \$34.9 million at December 31, 2012. 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.

The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013. The legislation was not enacted or substantively enacted (as defined for accounting purposes) until January of 2013, meaning that the appropriate accounting period for this change in law is 2013. Tax benefits relating to 2012 of approximately \$0.8 million resulting from renewed business tax provisions retroactive to January 1, 2012 are not recorded as a benefit in 2012, but will be recorded as a discrete tax item in the first quarter of 2013.

#### Consolidated Results of Operations

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

	Year Ended December 31,				
	2010	2011	2012		
Net sales	100.0	% 100.0	% 100.0		%
Cost of sales	48.8	48.3	47.1		
Gross margin	51.2	51.7	52.9		
Selling and administrative expense	38.7	38.1	39.4		
Research and development expense	4.2	4.0	3.7		
Impairment of goodwill	—	8.3	—		
Other expense	0.3	0.2	1.3		
Income from operations	8.0	1.1	8.5		
Loss on early extinguishment of debt	—	—	—		
Amortization of debt discount	0.6	0.5	—		
Interest expense	1.0	0.9	0.7		
Income (loss) before income taxes	6.4	(0.3	) 7.8		
Provision (benefit) for income taxes	2.1	(0.4	) 2.5		
Net income	4.3	% 0.1	% 5.3		%

#### 2012 Compared to 2011

Sales for 2012 were \$767.1 million, an increase of \$42.0 million (5.8%) compared to sales of \$725.1 million in 2011 with the increases occurring in all product lines except Patient Care and Electrosurgery. The distribution agreement with Musculoskeletal Transplant Foundation (“MTF”) accounted for a 3.9% annual sales increase. In local currency,

excluding the effects of the hedging program, sales increased 5.7%. Sales of capital equipment decreased \$6.3 million (-3.9%) to \$153.6 million in 2012 from \$159.9 million in 2011; sales of single-use and reusable products increased \$48.3 million (8.5%) to \$613.5 million in 2012 from \$565.2 million in 2011. In local currency, excluding the effects of the hedging program, sales of capital equipment decreased 3.8% while single-use and reusable products increased 8.4%. We believe the overall decline in capital sales is driven by capital purchasing constraints in hospitals due to depressed economic conditions.



Cost of sales increased to \$361.3 million in 2012 as compared to \$350.1 million in 2011. Gross profit margins increased 1.2 percentage points to 52.9% in 2012 as compared to 51.7% in 2011. The increase in gross profit margins of 1.2 percentage points is primarily a result of the distribution agreement we entered into during 2012 with MTF as further described in Note 4 to the Consolidated Financial Statements (1.5 percentage points) and product mix offset by the impact of unfavorable foreign exchange rates on sales and higher restructuring charges than the same period a year ago.

Selling and administrative expense increased to \$302.5 million in 2012 compared to \$276.6 million in 2011. Selling and administrative expense as a percentage of net sales increased to 39.4% in 2012 from 38.1% in 2011. This increase of 1.3 percentage points is primarily attributable to higher selling expenses mainly related to our MTF distribution agreement and acquisition of our former distributor for the Nordic region of Europe.

Research and development expense was \$28.2 million in 2012 compared to \$28.7 million in 2011. As a percentage of net sales, research and development expense decreased to 3.7% in 2012 compared to 4.0% in 2011. The decrease of 0.3 percentage points is mainly a result of relatively flat spending on increased sales in 2012.

During 2011, we recorded a \$60.3 million charge for the impairment of goodwill related to the CONMED Patient Care operating unit. Refer to Note 4 to the Consolidated Financial Statements for further details.

As discussed in Note 11 to the Consolidated Financial Statements, other expense in 2012 consisted of a \$6.5 million charge related to administrative consolidation expenses in our CONMED Linvatec operating segment, a charge of \$0.7 million related to the purchase of the Company's former distributor for the Nordic region of Europe, \$1.6 million in costs associated with a contractual dispute with a former distributor and \$1.2 million in costs associated with the purchase of Viking Systems, Inc.. Other expense in 2011 consisted of a \$0.8 million charge related to the consolidation of certain of our administrative functions in our Utica, NY facility and a \$0.3 million charge related to the purchase of the Company's former distributor for the Nordic region of Europe.

Amortization of debt discount was \$3.9 million in 2011. The debt discount on the Notes was amortized through November 2011.

Interest expense was \$5.7 million in 2012 compared to \$6.7 million in 2011. The decrease in interest expense is due to lower weighted average interests rates on higher weighted average borrowings outstanding in 2012 as compared to the same period a year ago. The weighted average interest rates on our borrowings decreased to 3.03% in 2012 as compared to 3.66% in 2011.

A provision for income taxes was recorded at an effective rate of 31.9% in 2012 and -132.6% in 2011 as compared to the Federal statutory rate of 35.0%. Income tax expense recorded in 2012 was higher than recorded in the same period a year ago as a result of increased pre-tax earnings, offset by higher earnings in foreign jurisdictions where the tax rates are lower than the statutory federal rate and tax benefits recorded in 2012 as a result of determinations received from multiple taxing authorities. A reconciliation of the United States statutory income tax rate to our effective tax rate is included in Note 6 to the Consolidated Financial Statements.

#### 2011 Compared to 2010

Sales for 2011 were \$725.1 million, an increase of \$11.4 million (1.6%) compared to sales of \$713.7 million in 2010 with the increases occurring in all product lines except Patient Care. In local currency, excluding the effects of the hedging program, sales increased 0.7%. Sales of capital equipment decreased \$5.3 million (-3.2%) to \$159.9 million in 2011 from \$165.2 million in 2010; sales of single-use and reusable products increased \$16.7 million (3.0%) to \$565.2 million in 2011 from \$548.5 million in 2010. In local currency, excluding the effects of the hedging program,

sales of capital equipment decreased 3.9% while single-use and reusable products increased 2.1%. We believe the overall decline in capital sales is driven by capital purchasing constraints in hospitals due to depressed economic conditions.

Cost of sales increased to \$350.1 million in 2011 as compared to \$348.3 million in 2010. Gross profit margins increased 0.5 percentage points to 51.7% in 2011 as compared to 51.2% in 2010. The increase in gross profit margins of 0.5 percentage points results from the impact of favorable foreign currency exchange rates on sales and product mix.

Selling and administrative expense remained relatively flat at \$276.6 million in 2011 compared to \$276.5 million in 2010. Foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) increased expense approximately \$5.3 million. Selling and administrative expense as a percentage of net sales decreased to 38.1% in 2011 from 38.7% in 2010. This decrease of 0.6 percentage points is primarily attributable to the consolidation of administrative functions

during 2010 and the first quarter of 2011 which more than offset the impact of unfavorable foreign currency exchange rates on expenses.

Research and development expense was \$28.7 million in 2011 compared to \$29.7 million in 2010. As a percentage of net sales, research and development expense decreased to 4.0% in 2011 compared to 4.2% in 2010. The decrease of 0.2 percentage points is mainly driven by decreased spending on our CONMED Linvatec products.

During 2011, we recorded a \$60.3 million charge for the impairment of goodwill related to the CONMED Patient Care operating unit. Refer to Note 4 to the Consolidated Financial Statements for further details.

As discussed in Note 11 to the Consolidated Financial Statements, other expense in 2011 consisted of a \$0.8 million charge related to the consolidation of administrative functions in our Utica, NY facility, and a charge of \$0.3 million related to the purchase of the Company's former distributor for the Nordic region of Europe. Other expense in 2010 consisted of a \$1.5 million charge related to the consolidation of administrative functions in our CONMED Linvatec operating segment and a \$0.7 million charge related to a lease impairment on our Chelmsford, Massachusetts facility.

During 2010, we repurchased and retired \$3.0 million of our 2.50% convertible senior subordinated notes (the "Notes") for \$2.9 million and recorded a loss on the early extinguishment of debt of \$0.1 million. See additional discussion under Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources and Note 5 to the Consolidated Financial Statements.

Amortization of debt discount in 2011 was \$3.9 million compared to \$4.2 million in 2010.

Interest expense was \$6.7 million in 2011 compared to \$7.1 million in 2010. Interest expense decreased due to lower weighted average borrowings outstanding in 2011 as compared to the same period a year ago offset by higher weighted average interest rates. The weighted average interest rates on our borrowings (inclusive of the finance charge on our accounts receivable sale facility) increased to 3.66% in 2011 as compared to 3.18% in 2010.

A provision for income taxes was recorded at an effective rate of -132.6% in 2011 and 33.5% in 2010 as compared to the Federal statutory rate of 35.0%. Actual income tax expense recorded in 2011 was \$2.3 million lower than income tax expense as computed at the Federal statutory rate. Actual income tax expense recorded in 2010 was \$0.7 million lower than income tax expense as computed at the Federal statutory rate. Income tax expense was primarily lower in 2011 as a result of Federal foreign tax credit benefit recorded in 2011 associated with the repatriation of foreign earnings to the United States, which decreased tax expense by \$1.3 million. A reconciliation of the United States statutory income tax rate to our effective tax rate is included in Note 6 to the Consolidated Financial Statements.

#### Operating Segment Results:

Segment information is prepared on the same basis that we review financial information for operational decision-making purposes. We conduct our business through five principal operating segments: CONMED Endoscopic Technologies, CONMED Endosurgery, CONMED Electrosurgery, CONMED Linvatec and CONMED Patient Care. Based upon the aggregation criteria for segment reporting, we have grouped our CONMED Endosurgery, CONMED Electrosurgery and CONMED Linvatec operating segments into a single reportable segment. The economic characteristics of CONMED Patient Care and CONMED Endoscopic Technologies do not meet the criteria for aggregation due to the lower overall operating income (loss) of these segments.

The following tables summarize the Company's results of operations by reportable segment for 2010, 2011 and 2012:

Edgar Filing: CONMED CORP - Form 10-K

CONMED Endosurgery, CONMED Electrosurgery and CONMED Linvatec

	2010	2011	2012	
Net sales	\$596,923	\$610,075	\$650,273	
Income from operations	77,271	89,093	81,848	
Operating margin	12.9	% 14.6	% 12.6	%

35

---

Product offerings include a complete line of endo-mechanical instrumentation for minimally invasive laparoscopic procedures, electrosurgical generators and related surgical instruments, arthroscopic instrumentation for use in orthopedic surgery and small bone, large bone and specialty powered surgical instruments.

Arthroscopy sales increased \$40.6 million (14.0%) in 2012 to \$330.5 million from \$289.9 million in 2011 mainly due to the distribution agreement with MTF and increased sales of procedure specific products. In local currency, excluding the effects of the hedging program, sales increased 14.0%. Sales of capital equipment increased \$0.1 million (0.2%) to \$63.1 million in 2012 from \$63.0 million in 2011; sales of single-use products increased \$40.5 million (17.8%) to \$267.4 million in 2012 from \$226.9 million in 2011. In local currency, excluding the effects of the hedging program, sales of capital equipment increased 0.8% and single-use products increased 17.7%. Arthroscopy sales increased \$1.5 million (0.5%) in 2011 to \$289.9 million from \$288.4 million in 2010 due to higher procedure specific product sales offset by lower sales of our video imaging products for arthroscopy and general surgery. In local currency, excluding the effects of the hedging program, sales decreased 0.7%. Sales of capital equipment decreased \$12.2 million (-16.2%) to \$63.0 million in 2011 from \$75.2 million in 2010; sales of single-use products increased \$13.7 million (6.4%) to \$226.9 million in 2011 from \$213.2 million in 2010. In local currency, excluding the effects of the hedging program, sales of capital equipment decreased 17.0% while single-use products increased 5.1%.

Powered surgical instrument sales increased \$2.1 million (1.4%) in 2012 to \$150.0 million from \$147.9 million in 2011 mainly driven by increases in our large bone burs and blades and small bone handpiece products. In local currency, excluding the effects of the hedging program, sales increased 1.3%. Sales of capital equipment decreased \$1.8 million (-2.6%) to \$67.6 million in 2012 from \$69.4 million in 2011; sales of single-use products increased \$3.9 million (5.0%) in 2012 to \$82.4 million compared to \$78.5 million in 2011. In local currency, excluding the effects of the hedging program, sales of capital equipment decreased 2.7% while single-use products increased 4.9%. Powered surgical instrument sales increased \$5.6 million (3.9%) in 2011 to \$147.9 million from \$142.3 million in 2010 mainly driven by increases in our large bone handpiece products. In local currency, excluding the effects of the hedging program sales increased 2.6%. Sales of capital equipment increased \$5.0 million (7.8%) to \$69.4 million in 2011 from \$64.4 million in 2010; sales of single-use products increased \$0.6 million (0.8%) in 2011 to \$78.5 million compared to \$77.9 million in 2010. In local currency, excluding the effects of the hedging program, sales of capital equipment increased 6.9% while single-use products decreased 0.9%.

Electrosurgery sales decreased \$2.9 million (-2.9%) in 2012 to \$95.7 million from \$98.6 million in 2011 mainly due to lower generator sales offset by sales of our new vessel sealing products and increased sales of our smoke management products. In local currency, excluding the effects of the hedging program sales decreased 3.0%. Sales of capital equipment decreased \$4.6 million (-16.7%) to \$22.9 million in 2012 from \$27.5 million in 2011; sales of single-use products increased \$1.7 million (2.4%) to \$72.8 million in 2012 from \$71.1 million in 2011. In local currency, excluding the effects of the hedging program, sales of capital equipment decreased 17.0% while single-use products increased 2.4%. Electrosurgery sales increased \$1.4 million (1.4%) in 2011 to \$98.6 million from \$97.2 million in 2010 mainly due to higher generator sales and our new smoke evacuation accessories. In local currency, excluding the effects of the hedging program sales increased 1.0%. Sales of capital equipment increased \$1.9 million (7.4%) to \$27.5 million in 2011 from \$25.6 million in 2010; sales of single-use products decreased \$0.5 million (-0.7%) to \$71.1 million in 2011 from \$71.6 million in 2010. In local currency, excluding the effects of the hedging program, sales of capital equipment increased 7.5% while single-use products decreased 1.3%.

Endosurgery sales remained relatively flat with a \$0.3 million (0.4%) increase in 2012 to \$74.0 million from \$73.7 million in 2011. In local currency, excluding the effects of the hedging program sales increased 0.1%. Endosurgery sales increased \$4.7 million (6.8%) in 2011 to \$73.7 million from \$69.0 million in 2010 mainly due to increased unit volumes of single-use products. In local currency, excluding the effects of the hedging program, sales increased 6.4%.

Operating margins as a percentage of net sales decreased 2.0 percentage points to 12.6% in 2012 compared to 14.6% in 2011. The decrease in operating margins is principally a result of administrative consolidation expenses in our CONMED Linvatec operating segment, costs associated with the acquisition of our former distributor for the Nordic region of Europe, costs associated with a contractual dispute with a former distributor, higher selling expenses and costs associated with the purchase of Viking Systems, Inc. (3.0 percentage points). These increases are offset by higher gross margins mainly due to the distribution agreement with MTF (1.0 percentage points).

Operating margins as a percentage of net sales increased 1.7 percentage points to 14.6% in 2011 compared to 12.9% in 2010. The increase in operating margins is primarily due to higher gross margins (1.0 percentage points) mainly driven by favorable foreign currency exchange rates on sales and product mix resulting from lower capital sales in our Arthroscopy product line and higher sales in our Endosurgery operating unit, lower research and development spending on our

CONMED Linvatec products (0.3 percentage points) and lower overall selling and administrative expenses (0.4 percentage points).

#### CONMED Patient Care

	2010		2011		2012	
Net sales	\$68,283		\$65,651		\$63,697	
Income (loss) from operations	(38	)	(62,878	)	(2,210	)
Operating margin	(0.1	)%	(95.8	)%	(3.5	)%

Product offerings include a line of vital signs and cardiac monitoring products including pulse oximetry equipment & sensors, ECG electrodes and cables, cardiac defibrillation & pacing pads and blood pressure cuffs. We also offer a complete line of suction instruments & tubing for use in the operating room, as well as a line of IV products.

Patient Care sales decreased \$2.0 million (-3.0%) in 2012 to \$63.7 million compared to \$65.7 million in 2011 principally due to decreased sales of ECG electrodes. In local currency, excluding the effects of the hedging program, sales decreased 3.0%. Patient Care sales decreased \$2.6 million (-3.8%) in 2011 to \$65.7 million compared to \$68.3 million in 2010 principally due to decreased sales of ECG electrodes and IV devices. In local currency, excluding the effects of the hedging program, sales decreased 4.1%.

Operating margins as a percentage of net sales increased 92.3 percentage points to -3.5% in 2012 compared to -95.8% in 2011. The increase in operating margins is primarily driven by the prior year including a \$60.3 million charge for the impairment of goodwill (91.9 percentage points) and \$0.6 million in administrative restructuring charges (0.9 percentage points), and lower research and development spending (1.4 percentage points) offset by decreases in gross margins mainly due to lower sales volumes (1.1 percentage points) and higher selling expenses (0.8 percentage points).

Operating margins as a percentage of net sales decreased 95.7 percentage points to -95.8% in 2011 compared to -0.1% in 2010. The decrease in operating margins is primarily driven by the \$60.3 million charge for the impairment of goodwill (91.9 percentage points), \$0.6 million in administrative restructuring charges (0.9 percentage points) and decreases in gross margins mainly due to lower sales volumes (6.3 percentage points) offset by lower selling and administrative expenses (2.9 percentage points) and lower research and development spending (0.5 percentage points).

#### CONMED Endoscopic Technologies

	2010		2011		2012	
Net sales	\$48,517		\$49,351		\$53,170	
Income (loss) from operations	(1,315	)	273		2,738	
Operating margin	(2.7	)%	0.6	%	5.1	%

Product offerings include a comprehensive line of minimally invasive endoscopic diagnostic and therapeutic instruments used in procedures which require examination of the digestive tract.

Endoscopic Technologies sales increased \$3.9 million (7.9%) in 2012 to \$53.2 million from \$49.3 million in 2011 due to higher sales across most product lines. In local currency, excluding the effects of the hedging program, sales increased 7.5%. Endoscopic Technologies sales increased \$0.8 million (1.6%) in 2011 to \$49.3 million from \$48.5 million in 2010 principally due to higher biliary and polypectomy sales. In local

currency, excluding the effects of the hedging program, sales increased 1.2%.

Operating margins as a percentage of net sales increased 4.5 percentage points to 5.1% in 2012 from 0.6% in 2011. The increase in operating margins of 4.5 percentage points in 2012 is primarily due to higher gross margins (1.1 percentage points), the prior year including \$0.2 million in administrative restructuring charges (0.4 percentage points) and lower overall selling and administrative expenses as a percentage of sales during 2012 (3.0 percentage points).

Operating margins as a percentage of net sales increased 3.3 percentage points to 0.6% in 2011 from (-2.7%) in 2010. The increase in operating margins of 3.3 percentage points in 2011 is primarily due to overall lower selling and administrative



expenses (2.8 percentage points), the prior year including a lease impairment charge related to the Chelmsford, Massachusetts facility (1.4 percentage points) and higher gross margins (0.6 percentage points) due to favorable foreign currency exchange rates on sales offset by increased spending in research and development (1.1 percentage points) and \$0.2 million in administrative restructuring charges during the first quarter of 2011 (0.4 percentage points).

#### 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.

We had total cash on hand at December 31, 2012 of \$23.7 million, of which approximately \$19.6 million was held by our foreign subsidiaries outside the United States. During the fourth quarter of 2011, we repatriated \$16.2 million of foreign earnings to the United States. We do not intend to repatriate additional funds held outside of the United States in the future. If we were to repatriate these funds, we would be required to accrue and pay taxes on such amounts.

#### Operating cash flows

Our net working capital position was \$223.7 million at December 31, 2012. Net cash provided by operating activities was \$38.2 million in 2010, \$103.0 million in 2011 and \$95.2 million in 2012 generated on net income of \$30.3 million in 2010, \$0.8 million in 2011 and \$40.5 million in 2012.

The decrease in cash provided by operating activities in 2012 as compared to 2011 is primarily the result of \$6.5 million in contributions made to our pension plan in the first quarter of 2012 and the use of several tax attributes during 2011 resulting in higher payments on income taxes during 2012 offset by improved inventory management resulting in less use of cash.

#### Investing cash flows

Net cash used in investing activities during 2012, consisted primarily of a \$64.1 million payment associated with the distribution and development agreement with MTF, a payment of \$22.1 million related to the acquisition of Viking Systems, Inc. ("Viking acquisition") and capital expenditures. See Note 16 to the Consolidated Financial Statements for further discussion of the Viking acquisition. Capital expenditures were \$14.7 million, \$17.6 million and \$21.5 million in 2010, 2011 and 2012, respectively. Capital expenditures are expected to approximate \$20.0 million in 2013.

#### Financing cash flows

Net cash used in financing activities during 2012 consisted of the following: \$10.2 million in proceeds from the issuance of common stock under our equity compensation plans and employee stock purchase plan (See Note 7 to the Consolidated Financial Statements), \$73.0 million in borrowings on our revolving credit facility under our senior credit agreement, \$3.9 million in repurchases of treasury stock, \$53.6 million in repayments of term borrowings under our senior credit agreement, \$12.9 million in dividend payments related to our common stock, and \$1.0 million in repayments on our mortgage notes.

Our senior credit agreement at December 31, 2012 consisted of a \$250.0 million revolving credit facility. There were \$153.0 million in borrowings outstanding on the revolving credit facility as of December 31, 2012. Our available borrowings on the revolving credit facility at December 31, 2012 were \$87.2 million with approximately \$9.8 million of the facility set aside for outstanding letters of credit. As noted in Note 4 to the Consolidated Financial Statements, we entered into a distribution and development agreement with MTF on January 3, 2012 and used cash on hand and available borrowings under our revolving credit facility to fund the up front payment of \$63.0 million. We expect to fund the remaining \$84.0 million in contingent payments, including the \$34.0 million paid on January 3, 2013, through cash on hand and available borrowings under our revolving credit facility as these payments come due over the next four years.

Borrowings outstanding on the revolving credit facility were due and payable on November 30, 2015. Interest rates on the revolving credit facility portion of the senior credit agreement were at LIBOR plus 1.75% (2.22% at December 31, 2012) or an alternative base rate. For those borrowings where the Company elected to use the alternative base rate, the base rate would have been the greater of the Prime Rate or the Federal Funds Rate in effect on such date plus a margin of 1.00% for borrowings under the revolving credit facility.

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. Initial interest rates are at LIBOR plus 1.50% 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 0.50%.

The senior credit agreement is collateralized by substantially all of our personal property and assets. The 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 December 31, 2012. We are also required, under certain circumstances, to make mandatory prepayments from net cash proceeds from any issuance of equity and asset sales.

We have a mortgage note outstanding in connection with the property and facilities utilized by our CONMED Linvatec subsidiary 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 \$8.6 million at December 31, 2012. The mortgage note is collateralized by the CONMED Linvatec property and facilities.

On November 15, 2011 holders of the 2.50% convertible senior subordinated notes due 2024 ("the Notes") put to us and we were required to repurchase \$111.8 million of the Notes at par; \$0.2 million remains outstanding at December 31, 2012. We used cash on hand and borrowings under our revolving credit facility to fund the repurchase. During 2010, we repurchased and retired \$3.0 million of the Notes for \$2.9 million and recorded a loss on the early extinguishment of debt of \$0.1 million. The Notes represent subordinated unsecured obligations and are convertible under certain circumstances, as defined in the indenture for the Notes, into a combination of cash and CONMED common stock. The Notes mature on November 15, 2024 and are redeemable by us at any time. Holders of the Notes have the right to put to us some or all of the Notes for repurchase on November 15, 2014 and 2019 and, provided the terms of the indenture for the Notes are satisfied, we will be required to repurchase the Notes.

Our Board of Directors has authorized a \$200.0 million share repurchase program. Through December 31, 2012, we have repurchased a total of 4.1 million shares of common stock aggregating \$95.1 million under this authorization and have \$104.9 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 \$3.9 million under the share repurchase program in 2012. We have financed the repurchases and may finance additional repurchases through operating cash flow and from available borrowings under our revolving credit facility.

Management believes that cash flow from operations, including cash and cash equivalents on hand and available borrowing capacity under our 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. See "Item 1. Business – Forward Looking Statements."

#### Restructuring

During 2010, 2011 and 2012, 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. During the second quarter of 2012, we began the consolidation of our Finland operations into our Largo,

Florida and Utica, New York manufacturing facilities. For the years ending December 31, 2010, 2011 and 2012, we charged \$2.4 million, \$3.5 million, and \$7.1 million, respectively, to cost of goods sold within our CONMED Linvatec operating segment. These costs include severance and other charges associated with the transfer of production to Mexico and consolidation of our Finland operations. We have recorded an accrual in current liabilities of \$3.6 million at December 31, 2012 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.

During 2010 and 2012, we consolidated certain administrative functions in our CONMED Linvatec operating segment and incurred \$1.5 million and \$6.5 million, respectively, in related costs consisting principally of severance charges. These costs were charged to other expense.

During 2011, we consolidated certain administrative functions in our Utica, New York facility and incurred \$0.8 million in related costs consisting principally of severance charges. These costs were charged to other expense.

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 and other exit costs. We estimate restructuring costs will approximate \$8.0 million to \$10.0 million in 2013 and will be charged to cost of goods sold and other expense.

Refer to Note 15 to the Consolidated Financial Statements for further discussions regarding restructuring.

### Contractual Obligations

The following table summarizes our contractual obligations for the next five years and thereafter (amounts in thousands) as of December 31, 2012 as adjusted for the refinancing of the obligations under the amended and restated credit agreement on January 17, 2013. Purchase obligations represent purchase orders for goods and services placed in the ordinary course of business. There were no capital lease obligations as of December 31, 2012.

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt	\$ 161,852	\$ 1,050	\$ 2,601	\$ 2,791	\$ 155,410
Contingent consideration	84,000	34,000	33,333	16,667	—
Purchase obligations	40,058	39,720	338	—	—
Operating lease obligations	32,749	7,128	10,788	6,806	8,027
Total contractual obligations	\$ 318,659	\$ 81,898	\$ 47,060	\$ 26,264	\$ 163,437

In addition to the above contractual obligations, we are required to make periodic interest payments on our long-term debt obligations; (see additional discussion under Item 7A. “Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk” and Note 5 to the Consolidated Financial Statements). The above table also does not include unrecognized tax benefits of approximately \$0.6 million, the timing and certainty of recognition for which is not known. (See Note 6 to the Consolidated Financial Statements).

### Stock-based Compensation

We have reserved shares of common stock for issuance to employees and directors under three shareholder-approved share-based compensation plans (the "Plans"). The Plans provide for grants of options, stock appreciation rights (“SARs”), dividend equivalent rights, restricted stock, restricted stock units (“RSUs”), performance share units (“PSUs”) and other equity-based and equity-related awards. The exercise price on all outstanding options and SARs is equal to the quoted fair market value of the stock at the date of grant. RSUs and PSUs are valued at the market value of the underlying stock on the date of grant. Stock options, SARs, RSUs and PSUs are non-transferable other than on death and generally become exercisable over a five year period from date of grant. Stock options and SARs expire ten years from date of grant. SARs are only settled in shares of the Company’s stock. (See Note 7 to the Consolidated Financial Statements).

### New Accounting Pronouncements

See Note 14 to the Consolidated Financial Statements for a discussion of new accounting pronouncements.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential loss arising from adverse changes in market rates and prices such as commodity prices, foreign currency exchange rates and interest rates. In the normal course of business, we are exposed to various market risks, including changes in foreign currency exchange rates and interest rates. We manage our exposure to these and other market risks through regular operating and financing activities and as necessary through the use of derivative financial instruments.

#### Foreign currency risk

Approximately 50% of our total 2012 consolidated net sales were to customers outside the United States. We have sales subsidiaries in a significant number of countries in Europe as well as Australia, Canada, China and Korea. In those countries in

which we have a direct presence, our sales are denominated in the local currency amounting to approximately 35% of our total net sales in 2012. The remaining 15% of sales to customers outside the United States was on an export basis and transacted in United States dollars.

Because a significant portion of our operations consist of sales activities in foreign jurisdictions, our financial results may be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the markets in which we distribute products. During 2012, changes in foreign currency exchange rates, net of the effects of the hedging program, decreased sales by approximately \$4.4 million and income before income taxes by approximately \$0.8 million, compared to 2011 rates.

We hedge forecasted intercompany sales 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 December 31, 2012 which have been accounted for as cash flow hedges totaled \$90.3 million. Net realized gains (losses) recognized for forward contracts accounted for as cash flow hedges approximated \$2.0 million, \$(4.7) million and \$3.8 million for the years ended December 31, 2010, 2011, and 2012 respectively. Net unrealized losses on forward contracts outstanding which have been accounted for as cash flow hedges and which have been included in other comprehensive income totaled \$1.1 million at December 31, 2012. It is expected these unrealized losses will be recognized in the consolidated statement of comprehensive income in 2013.

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 December 31, 2012 which have not been designated as hedges totaled \$47.3 million. Net realized gains (losses) recognized in connection with those forward contracts not accounted for as hedges approximated \$0.3 million, \$0.0 million and \$(2.1) million for the years ended December 31, 2010, 2011, and 2012, respectively, offsetting gains (losses) on our intercompany receivables of \$(0.7) million, \$(0.3) million and \$0.8 million for the years ended December 31, 2010, 2011, and 2012, respectively. These gains and losses have been recorded in selling and administrative expense in the consolidated statements of comprehensive income.

We record these forward foreign exchange contracts at fair value; the net fair value for forward foreign exchange contracts outstanding at December 31, 2012 was \$1.9 million and is included in other current liabilities in the Consolidated Balance Sheets.

Refer to Note 13 in the Consolidated Financial Statements for further discussion.

#### Interest rate risk

At December 31, 2012, we had approximately \$153.0 million of variable rate long-term debt outstanding under our senior credit agreement. Assuming no repayments, if market interest rates for similar borrowings averaged 1.0% more in 2013 than they did in 2012, interest expense would increase, and income before income taxes would decrease by \$1.5 million. Comparatively, if market interest rates for similar borrowings average 1.0% less in 2013 than they did in 2012, our interest expense would decrease, and income before income taxes would increase by \$1.5 million.

#### Item 8. Financial Statements and Supplementary Data

Our 2012 Financial Statements are included elsewhere herein.

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

There were no changes in or disagreement with accountants on accounting and financial disclosure.

Item 9A. Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by CONMED Corporation's management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule



13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth quarter of the year ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm thereon are set forth in Part IV, Item 15 of the Annual Report on Form 10-K.

Item 9B. Other Information

Not applicable.

42

---

### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference to the sections captioned “Proposal One: Election of Directors” and “Directors, Executive Officers, and Nominees for the Board of Directors” in CONMED Corporation’s definitive Proxy Statement or other informational filing to be filed with the Securities and Exchange Commission on or about April 10, 2013.

#### Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the sections captioned “Compensation Discussion and Analysis”, “Summary Compensation Table”, “Grants of Plan-Based Awards”, “Outstanding Equity Awards at Fiscal Year-End”, “Option Exercises and Stock Vested”, “Pension Benefits”, “Non-Qualified Deferred Compensation”, “Potential Payments on Termination or Change-in-Control”, “Director Compensation” and “Board of Directors Interlocks and Insider Participation; Certain Relationships and Related Transactions” in CONMED Corporation’s definitive Proxy Statement or other informational filing to be filed with the Securities and Exchange Commission on or about April 10, 2013.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated herein by reference to the section captioned “Security Ownership of Certain Beneficial Owners and Management” in CONMED Corporation’s definitive Proxy Statement or other informational filing to be filed with the Securities and Exchange Commission on or about April 10, 2013.

#### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the section captioned “Board of Directors Interlocks and Insider Participation; Certain Relationships and Related Transactions” in CONMED Corporation’s definitive Proxy Statement or other informational filing to be filed with the Securities and Exchange Commission on or about April 10, 2013.

#### Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to the section captioned “Principal Accounting Fees and Services” in CONMED Corporation’s definitive Proxy Statement or other informational filing to be filed with the Securities and Exchange Commission on or about April 10, 2013.

PART IV

Item 15. Exhibits, Financial Statement Schedules

Index to Financial Statements

(a)(1) List of Financial Statements	Page in Form 10-K
Management's Report on Internal Control Over Financial Reporting	49
Report of Independent Registered Public Accounting Firm	50
Consolidated Balance Sheets at December 31, 2011 and 2012	51
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2010, 2011 and 2012	52
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2010, 2011 and 2012	53
Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2011 and 2012	55
Notes to Consolidated Financial Statements	57
(2) List of Financial Statement Schedules	
Valuation and Qualifying Accounts (Schedule II)	84
All other schedules have been omitted because they are not applicable, or the required information is shown in the financial statements or notes thereto.	
(3) List of Exhibits	
The exhibits listed on the accompanying Exhibit Index on page 46 below are filed as part of this Form 10-K.	

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the date indicated below.

CONMED CORPORATION

By: /s/ Joseph J. Corasanti  
Joseph J. Corasanti  
(President and Chief  
Executive Officer)

Date:  
February 25, 2013

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

Signature	Title	Date
/s/ EUGENE R. CORASANTI Eugene R. Corasanti	Chairman of the Board of Directors	February 25, 2013
/s/ JOSEPH J. CORASANTI Joseph J. Corasanti	President, Chief Executive Officer and Director	February 25, 2013
/s/ ROBERT D. SHALLISH, JR. Robert D. Shallish, Jr.	Vice President-Finance and Chief Financial Officer (Principal Financial Officer)	February 25, 2013
/s/ LUKE A. POMILIO Luke A. Pomilio	Vice President- Controller and Corporate General Manager (Principal Accounting Officer)	February 25, 2013
/s/ BRUCE F. DANIELS Bruce F. Daniels	Director	February 25, 2013
/s/ JO ANN GOLDEN Jo Ann Golden	Director	February 25, 2013
/s/ STEPHEN M. MANDIA Stephen M. Mandia	Director	February 25, 2013
/s/ STUART J. SCHWARTZ Stuart J. Schwartz	Director	February 25, 2013
/s/ MARK E. TRYNISKI Mark E. Tryniski	Director	February 25, 2013



Exhibit Index

Exhibit No.	Description
3.1	- Amended and Restated By-Laws, as adopted by the Board of Directors on April 29, 2011 (Incorporated by reference to the Company's Current Report on Form 10-Q filed with the Securities and Exchange Commission on May 2, 2011).
3.2	- 1999 Amendment to Certificate of Incorporation and Restated Certificate of Incorporation of CONMED Corporation (Incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
4.1	- See Exhibit 3.1.
4.2	- See Exhibit 3.2.
4.3	- Guarantee and Collateral Agreement, dated August 28, 2002, made by CONMED Corporation and certain of its subsidiaries in favor of JP Morgan Chase Bank (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
4.4	- First Amendment to Guarantee and Collateral Agreement, dated June 30, 2003, made by CONMED Corporation and certain of its subsidiaries in favor of JP Morgan Chase Bank and the several banks and other financial institutions or entities from time to time parties thereto (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
4.5	- Second Amendment to Guarantee and Collateral Agreement, dated April 13, 2006, made by CONMED Corporation and certain of its subsidiaries in favor of JP Morgan Chase Bank and the several banks and other financial institutions or entities from time to time parties thereto (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 19, 2006).
4.6*	- Third Amendment to Guarantee and Collateral Agreement, dated as of January 17, 2013, made by CONMED Corporation and certain of its subsidiaries in favor of JP Morgan Chase Bank.
4.7	- Indenture dated November 10, 2004 between CONMED Corporation and The Bank of New York, as Trustee (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 16, 2004).
10.1+	- Employment Agreement between the Company and Eugene R. Corasanti, dated October 31, 2006 (Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 2, 2006).
10.2+	- Amended and Restated Employment Agreement, dated October 30, 2009, by and between CONMED Corporation and Joseph J. Corasanti, Esq. (Incorporated by reference to the Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).



Edgar Filing: CONMED CORP - Form 10-K

- 10.3 - Amended and Restated Employee Stock Option Plan (including form of Stock Option Agreement) (Incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K for the year ended December 31, 1996).
- 10.4 - Stock Option Plan for Non-Employee Directors of CONMED Corporation (Incorporated by reference to Exhibit 10.5 of the Company's Annual Report on Form 10-K for the year ended December 31, 1996).
- 10.5 - Amendment to Stock Option Plan for Non-employee Directors of CONMED Corporation (Incorporated by reference to the Company's Definitive Proxy Statement for the 2002 Annual Meeting filed with the Securities and Exchange Commission on April 17, 2002).
- 10.6 - 1999 Long-term Incentive Plan (Incorporated by reference to the Company's Definitive Proxy Statement for the 1999 Annual Meeting filed with the Securities and Exchange Commission on April 16, 1999).
- 10.7 - Amendment to 1999 Long-term Incentive Plan (Incorporated by reference to the Company's Definitive Proxy Statement for the 2002 Annual Meeting filed with the Securities and Exchange Commission on April 17, 2002).
- 10.8 - 2002 Employee Stock Purchase Plan (Incorporated by reference to the Company's Definitive Proxy Statement for the 2002 Annual Meeting filed with the Securities and Exchange Commission on April 17, 2002).
- 10.9 - Amendment to CONMED Corporation 2002 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.11 of the Company's Annual Report on Form 10-K for the year ended December 31, 2005).
- 10.10 - 2006 Stock Incentive Plan (Incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 on August 8, 2006).
- 10.11 - 2007 Non-Employee Director Equity Compensation Plan (Incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 on August 8, 2007).
- 10.12 - Amended and Restated 1999 Long Term Incentive Plan (Incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 on November 3, 2009).
- 10.13 - Amended and Restated 2007 Non-Employee Director Equity Compensation Plan of CONMED Corporation (Incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 on August 3, 2010).
- 10.14 - Amended and Restated Long Term Incentive Plan (Incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 on July 27, 2012).
- 10.15 - Amended and Restated Credit Agreement, dated January 17, 2013, among CONMED Corporation, JP Morgan Chase Bank and the several banks and other financial institutions or entities from time to time parties thereto (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 18, 2013).



- 10.16 - Change in Control Severance Agreement for Joseph J. Corasanti (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008).

47

---

Edgar Filing: CONMED CORP - Form 10-K

- 10.17 - Change in Control Severance Agreement for Robert D. Shallish, Jr. (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008).
- 10.18 - Change in Control Severance Agreement for Daniel S. Jonas (Incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008).
- 10.19 - Change in Control Severance Agreement for Luke A. Pomilio (Incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008).
- 10.20 - Executive Severance Agreement for Joseph G. Darling (Incorporated by reference to Exhibit 10.28 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008).
- 10.21 - Change in Control Severance Agreement for Joseph G. Darling (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).
- 10.22 - Sports Medicine Joint Development and Distribution Agreement by and between Musculoskeletal Transplant Foundation, Inc. and CONMED Corporation dated as of January 3, 2012 (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated January 3, 2012).
- 14 - Code of Ethics. The CONMED code of ethics may be accessed via the Company's website at [http://www.CONMED.com/conmed\\_investor\\_template.php](http://www.CONMED.com/conmed_investor_template.php)
- 21\* - Subsidiaries of the Registrant.
- 23\* - Consent of Independent Registered Public Accounting Firm.
- 31.1\* - Certification of Joseph J. Corasanti pursuant to Rule 13a-15(f) and Rule 15d-15(f) 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-15(f) and Rule 15d-15(f) of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* - Certifications 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 Annual Report on Form 10-K for the year ended December 31, 2012 formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Comprehensive Income for the three years ended December 31, 2012, (ii) Consolidated Balance Sheets at December 31, 2012 and 2011, (iii) Consolidated Statements of Shareholders' Equity for the three years ended December 31, 2012 (iv) Consolidated Statements of Cash Flows for the three years ended December 31, 2012, (v) Notes to the Consolidated Financial Statements for the year ended December 31, 2012 and (vi) Schedule II - Valuation and Qualifying Accounts. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K 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.

- \* Filed herewith
- + Management contract or compensatory plan or arrangement.

MANAGEMENT'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING

The management of CONMED Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management assessed the effectiveness of CONMED's internal control over financial reporting as of December 31, 2012. In making its assessment, management utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "Internal Control-Integrated Framework". Management has concluded that based on its assessment, CONMED's internal control over financial reporting was effective as of December 31, 2012. The effectiveness of the Company's internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

/s/ Joseph J. Corasanti  
Joseph J. Corasanti  
President and  
Chief Executive Officer

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of CONMED Corporation

In our opinion, the consolidated balance sheets and the related consolidated statements of comprehensive income, consolidated statements of shareholders' equity, and consolidated statements of cash flows present fairly, in all material respects, the financial position of CONMED Corporation and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report On Internal Control Over Financial Reporting". Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Albany, New York  
February 25, 2013

50

---

CONMED CORPORATION  
CONSOLIDATED BALANCE SHEETS

December 31, 2011 and 2012

(In thousands except share and per share amounts)

	2011	2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$26,048	\$23,720
Accounts receivable, less allowance for doubtful accounts of \$1,183 in 2011 and \$1,203 in 2012	135,641	139,124
Inventories	168,438	156,228
Income taxes receivable	—	191
Deferred income taxes	10,283	11,931
Prepaid expenses and other current assets	16,314	14,993
Total current assets	356,724	346,187
Property, plant and equipment, net	139,187	139,041
Deferred income taxes	2,389	1,057
Goodwill	234,815	256,821
Other intangible assets, net	195,531	190,809
Other assets	6,948	150,547
Total assets	\$935,594	\$1,084,462
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$54,557	\$1,050
Accounts payable	21,162	23,622
Accrued compensation and benefits	31,142	33,511
Income taxes payable	6,470	—
Other current liabilities	17,853	64,325
Total current liabilities	131,184	122,508
Long-term debt	88,952	160,802
Deferred income taxes	92,785	107,518
Other long-term liabilities	49,602	86,636
Total liabilities	362,523	477,464
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value \$.01 per share; authorized 500,000 shares, none issued or outstanding	—	—
Common stock, par value \$.01 per share; 100,000,000 authorized; 31,299,203 and 31,299,194 issued in 2011 and 2012, respectively	313	313
Paid-in capital	321,994	324,322
Retained earnings	354,439	377,907
Accumulated other comprehensive loss	(26,348	) (27,581
Less: Treasury stock, at cost;		)

Edgar Filing: CONMED CORP - Form 10-K

3,358,078 and 2,925,801 shares in 2011 and 2012, respectively	(77,327	) (67,963	)
Total shareholders' equity	573,071	606,998	
Total liabilities and shareholders' equity	\$935,594	\$1,084,462	
See notes to consolidated financial statements.			

51

---



CONMED CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Years Ended December 31, 2010, 2011 and 2012  
(In thousands except per share amounts)

	2010	2011	2012
Net sales	\$713,723	\$725,077	\$767,140
Cost of sales	348,339	350,143	361,297
Gross profit	365,384	374,934	405,843
Selling and administrative expense	276,463	276,615	302,469
Research and development expense	29,652	28,651	28,214
Impairment of goodwill	—	60,302	—
Other expense	2,176	1,092	9,950
	308,291	366,660	340,633
Income from operations	57,093	8,274	65,210
Loss on early extinguishment of debt	79	—	—
Amortization of debt discount	4,244	3,903	—
Interest expense	7,113	6,676	5,730
Income (loss) before income taxes	45,657	(2,305)	) 59,480
Provision (benefit) for income taxes	15,311	(3,057)	) 18,999
Net income	\$30,346	\$752	\$40,481
Per share data:			
Basic	\$1.06	\$0.03	\$1.43
Diluted	\$1.05	\$0.03	\$1.41
Dividends per share of common stock	\$—	\$—	\$0.60
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustments	\$65	\$(1,937)	) \$1,995
Pension liability	(3,489)	) (20,250)	) 1,387
Cash flow hedging gain (loss)	(2,096)	) 6,690	(6,507)
Other comprehensive income (loss), before tax	24,826	(14,745)	) 37,356
Provision (benefit) for income taxes related to items of other comprehensive income	(2,064)	) (5,010)	) (1,892)
Comprehensive income (loss)	\$26,890	\$(9,735)	) \$39,248

See notes to consolidated financial statements.



CONMED CORPORATION  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
Years Ended December 31, 2010, 2011 and 2012  
(In thousands)

	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Shareholders' Equity
	Shares	Amount					
Balance at December 31, 2009	31,299	\$ 313	\$317,366	\$325,370	\$(12,405 )	\$(54,129 )	\$576,515
Common stock issued under employee plans			(2,376 )	(1,696 )		5,791	1,719
Repurchase of treasury stock						(22,977 )	(22,977 )
Tax benefit arising from common stock issued under employee plans			227				227
Retirement of 2.50% convertible notes			(34 )				(34 )
Stock-based compensation			4,223				4,223
Comprehensive income (loss):							
Foreign currency translation adjustments					65		
Pension liability (net of income tax benefit of \$1,289)					(2,200 )		
Cash flow hedging loss (net of income tax benefit of \$775)					(1,321 )		
Net income				30,346			
Total comprehensive income							26,890
Balance at December 31, 2010	31,299	\$ 313	\$319,406	\$354,020	\$(15,861 )	\$(71,315 )	\$586,563

Edgar Filing: CONMED CORP - Form 10-K

Common stock issued under employee plans	(3,849 ) (333 )	9,009	4,827
Repurchase of treasury stock		(15,021 )	(15,021 )
Tax benefit arising from common stock issued under employee plans	1,197		1,197
Stock based compensation	5,240		5,240

Edgar Filing: CONMED CORP - Form 10-K

	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Shareholders' Equity
	Shares	Amount					
Comprehensive income (loss):							
Foreign currency translation adjustments					(1,937 )		
Pension liability (net of income tax benefit of \$7,482)					(12,768 )		
Cash flow hedging gain (net of income tax expense of \$2,472)					4,218		
Net income				752			
Total comprehensive income (loss)							(9,735 )
Balance at December 31, 2011	31,299	\$313	\$321,994	\$354,439	\$(26,348 )	\$(77,327 )	\$573,071
Common stock issued under employee plans			(4,377 )			13,287	8,910
Repurchase of treasury stock						(3,923 )	(3,923 )
Tax benefit arising from common stock issued under employee plans			1,052				1,052
Stock based compensation			5,653				5,653
Dividends on common stock				(17,013 )			(17,013 )
Comprehensive income (loss):							
Foreign currency translation adjustments					1,995		

Pension liability (net of income tax expense of \$512)					875			
Cash flow hedging loss (net of income tax benefit of \$2,404)					(4,103	)		
Net income				40,481				
Total comprehensive income								39,248
Balance at December 31, 2012	31,299	\$313	\$324,322	\$377,907	\$(27,581	)	\$(67,963	) \$606,998

See notes to consolidated financial statements.

CONMED CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2010, 2011 and 2012  
(In thousands)

	2010	2011	2012
Cash flows from operating activities:			
Net income	\$30,346	\$752	\$40,481
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	17,392	18,519	18,635
Amortization of debt discount	4,244	3,903	—
Amortization, all other	20,171	20,265	27,981
Stock-based compensation	4,223	5,240	5,653
Deferred income taxes	13,158	(13,098)	12,946
Sale of accounts receivable to (collections on behalf of) purchaser	(29,000)	) —	—
Income tax benefit of stock option exercises	227	1,197	1,052
Excess tax benefit from stock option exercises	(485)	) (1,363)	) (1,206)
Loss on early extinguishment of debt	79	—	—
Impairment of goodwill	—	60,302	—
Increase (decrease) in cash flows from changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	9,342	8,464	1,687
Inventories	(20,317)	) (7,850)	) 3,810
Accounts payable	(4,645)	) 2,649	259
Income taxes	(692)	) 4,838	(6,497)
Accrued compensation and benefits	2,516	1,673	767
Other assets	332	(4,243)	) (1,210)
Other liabilities	(8,648)	) 1,745	) (9,159)
	7,897	102,241	54,718
Net cash provided by operating activities	38,243	102,993	95,199
Cash flows from investing activities:			
Payments related to business acquisitions and distribution agreements,			
net of cash acquired	(5,289)	) (4,191)	) (86,253)
Proceeds from sale of property	—	—	1,836
Purchases of property, plant and equipment	(14,732)	) (17,552)	) (21,532)
Net cash used in investing activities	(20,021)	) (21,743)	) (105,949)
Cash flows from financing activities:			
Net proceeds from common stock issued under employee plans			
	2,452	6,117	10,165
Repurchase of common stock	(22,977)	) (15,021)	) (3,923)
Excess tax benefit from stock option exercises	485	1,363	1,206
Payments on senior credit agreement	(1,350)	) (1,350)	) (53,588)
Proceeds of senior credit agreement	12,000	58,000	73,000

Edgar Filing: CONMED CORP - Form 10-K

Payments on mortgage notes	(824	) (894	) (969	)
Payments on senior subordinated notes	(2,933	) (111,766	) (100	)
Payments related to issuance of debt	(2,525	) —	—	)
Dividends paid on common stock	—	—	(12,862	)
Other, net	66	(3,148	) (1,576	)
Net cash provided by (used in) financing activities	(15,606	) (66,699	) 11,353	)

55

---



Effect of exchange rate changes on cash and cash equivalents	(297	) (920	) (2,931	)
Net increase (decrease) in cash and cash equivalents	2,319	13,631	(2,328	)
Cash and cash equivalents at beginning of year	10,098	12,417	26,048	
Cash and cash equivalents at end of year	\$12,417	\$26,048	\$23,720	
Non-cash financing activities:				
Dividends payable	\$—	\$—	\$4,256	
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	\$6,025	\$5,797	\$5,038	
Income taxes	3,257	4,760	10,953	

See notes to consolidated financial statements.

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

Note 1 — Operations and Significant Accounting Policies

Organization and 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.

Principles of consolidation

The consolidated financial statements include the accounts of CONMED Corporation and its controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments which affect the reported amounts of assets, liabilities, related disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Estimates are used in accounting for, among other things, allowances for doubtful accounts, rebates and sales allowances, inventory allowances, purchased in-process research and development, pension benefits, goodwill and intangible assets, contingencies and other accruals. We base our estimates on historical experience and on various other assumptions which are believed to be reasonable under the circumstances. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates. Estimates and assumptions are reviewed periodically, and the effect of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary.

Cash and cash equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined on the FIFO (first-in, first-out) method of accounting.

We write-off excess and obsolete inventory resulting from the inability to sell our products at prices in excess of current carrying costs. 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.

Property, plant and equipment

Property, plant and equipment are stated at cost and depreciated using the straight-line method over the following estimated useful lives:

Building and improvements 40 years  
Leasehold improvements Shorter of life of asset or life of lease  
Machinery and equipment 2 to 15 years

Goodwill and other 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

57

---

net assets of acquired businesses. Other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. We have accumulated goodwill of \$256.8 million and other intangible assets of \$190.8 million as of December 31, 2012.

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 reporting units. 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. Our last goodwill impairment testing, performed as of October 1, 2011, under the Step 1 method for our CONMED Electrosurgery, CONMED Endosurgery and CONMED Linvatec reporting units, utilized CONMED Corporation's EBITDA multiple adjusted for a market-based control premium with the resultant fair values exceeding carrying values by 42% to 107%. Based upon our qualitative assessment, we believe the fair value of these reporting units continue to exceed carrying values by a substantial margin.

During 2011, we estimated the fair value of the CONMED Patient Care reporting unit utilizing both a market-based approach and an income approach. Under the income approach, we utilized a discounted cash flow valuation methodology and measured the goodwill impairment in accordance with ASC 350. The first step of the impairment test determined the carrying value exceeded fair value and therefore we proceeded to Step 2. Under Step 2, we calculated the amount of impairment loss by measuring the amount the carrying value of goodwill exceeded the implied fair value of the goodwill. We determined the goodwill of our CONMED Patient Care reporting unit was impaired as a result of lower future earnings due to pricing pressures in a number of our product lines and consequently we recorded a goodwill impairment charge of \$60.3 million to reduce the carrying amount of the reporting unit's goodwill to its implied fair value.

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.

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.

#### Other long-lived assets

We review asset carrying amounts for impairment (consisting of intangible assets subject to amortization and property, plant and equipment) whenever events or circumstances indicate that such carrying amounts may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized by reducing the recorded value to its current fair value.

#### Fair value of financial instruments

The carrying amounts reported in our balance sheets for cash and cash equivalents, accounts receivable, accounts payable and long-term debt excluding the 2.50% convertible senior subordinated notes (the "Notes") approximate fair value. The fair value of the Notes approximated \$0.3 million and \$0.2 million at December 31, 2011 and 2012, respectively, based on their quoted market price.

#### Translation of foreign currency financial statements

Assets and liabilities of foreign subsidiaries have been translated into United States dollars at the applicable rates of exchange in effect at the end of the period reported. Revenues and expenses have been translated at the applicable weighted average rates of exchange in effect during the period reported. Translation adjustments are reflected in accumulated other comprehensive loss. Transaction gains and losses are included in net income.

#### Foreign exchange and hedging activity

We manage our foreign currency transaction risks through the use of forward contracts to hedge forecasted cash flows associated with foreign currency transaction exposures. 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 reclassified into earnings as a component of sales or cost of sales when the forecasted transaction occurs.

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. We record these forward contracts at fair value with resulting gains and losses included in selling and administrative expense in the consolidated statements of comprehensive income.

#### Income taxes

Deferred income tax assets and liabilities are based on the difference between the financial statement and tax basis of assets and liabilities and operating loss and tax credit carryforwards as measured by the enacted tax rates that are anticipated to be in effect in the respective jurisdictions when these differences reverse. The deferred income tax

provision generally represents the net change in the assets and liabilities for deferred income taxes. A valuation allowance is established when it is necessary to reduce deferred income tax assets to amounts for which realization is likely. In assessing the need for a valuation allowance, we estimate future taxable income, considering the feasibility of ongoing tax planning strategies and the realizability of tax loss carryforwards. Valuation allowances related to deferred tax assets may be impacted by changes to tax laws, changes to statutory tax rates and ongoing and future taxable income levels.

Deferred income taxes are not provided on the unremitted earnings of subsidiaries outside of the United States when it is expected that these earnings are permanently reinvested. Such earnings may become taxable upon a repatriation of assets from a subsidiary or the sale or liquidation of a subsidiary. Deferred income taxes are provided when the Company no longer considers subsidiary earnings to be permanently invested, such as in situations where the Company's subsidiaries plan to make future dividend distributions.

## 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.

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.

Service revenues earned by the Company related to the sale of sports medicine allograft tissue are recorded in accordance with the contractual terms of our agreement with Musculoskeletal Transplant Foundation ("MTF"). These revenues are recorded net of amortization of the acquired assets.

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 included in selling and administrative expense were \$12.1 million, \$13.0 million and \$12.8 million for 2010, 2011 and 2012, respectively.

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 \$1.2 million at December 31, 2012 is adequate to provide for probable losses resulting from accounts receivable.

## Earnings and dividends 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 at December 31, 2010, 2011 and 2012, respectively:





	2010	2011	2012
Net income	\$30,346	\$752	\$40,481
Basic-weighted average shares outstanding	28,715	28,246	28,301
Effect of dilutive potential securities	196	387	352
Diluted-weighted average shares outstanding	28,911	28,633	28,653
Basic EPS	\$1.06	\$0.03	\$1.43
Diluted EPS	\$1.05	\$0.03	\$1.41

The shares used in the calculation of diluted EPS exclude options to purchase shares where the exercise price was greater than the average market price of common shares for the year. Such shares aggregated approximately 1.5 million, 0.7 million and 0.4 million at December 31, 2010, 2011 and 2012, respectively.

On February 29, 2012, the Board of Directors adopted a cash dividend policy and declared an initial quarterly dividend of \$0.15 per share. The initial quarterly dividend of \$4.3 million was paid on April 5, 2012 to shareholders of record as of March 15, 2012. The second quarter dividend for 2012 of \$4.3 million was paid on July 6, 2012 to shareholders of record as of June 15, 2012. The third quarter dividend for 2012 of \$4.3 million was paid on October 5, 2012 to shareholders of record as of September 14, 2012. The fourth quarter dividend for 2012 was paid on January 7, 2013 to shareholders of record as of December 17, 2012. The total dividend payable at December 31, 2012 was \$4.3 million and is included in other current liabilities in the consolidated balance sheet.

#### 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.

We issue shares under our stock based compensation plans out of treasury stock whereby treasury stock is reduced by the weighted average cost of such treasury stock. To the extent there is a difference between the cost of the treasury stock and the exercise price of shares issued under stock based compensation plans, we record gains to paid in capital; losses are recorded to paid in capital to the extent any gain was previously recorded, otherwise the loss is recorded to retained earnings.

#### Accumulated other comprehensive loss

Accumulated other comprehensive loss consists of the following:

	Cash Flow Hedging Gain (Loss)	Pension Liability	Cumulative Translation Adjustments	Accumulated Other Comprehensive Loss
Balance, December 31, 2011	\$2,973	\$(31,250 )	\$1,929	\$(26,348 )
Pension liability, net of income tax	—	875	—	875
Cash flow hedging loss, net of income tax	(4,103 )	—	—	(4,103 )
Foreign currency translation adjustments	—	—	1,995	1,995
Balance, December 31, 2012	\$(1,130 )	\$(30,375 )	\$3,924	\$(27,581 )

Note 2 — Inventories

Inventories consist of the following at December 31,:

	2011	2012
Raw materials	\$52,351	\$45,115
Work in process	15,499	14,229
Finished goods	100,588	96,884
	\$168,438	\$156,228

Note 3 — Property, Plant and Equipment

Property, plant and equipment consist of the following at December 31,:

	2011	2012
Land	\$4,367	\$4,243
Building and improvements	90,360	92,775
Machinery and equipment	163,923	176,102
Construction in progress	6,310	5,508
	264,960	278,628
Less: Accumulated depreciation	(125,773 )	(139,587 )
	\$139,187	\$139,041

We lease various manufacturing facilities, office facilities and equipment under operating leases. Rental expense on these operating leases was approximately \$5,830, \$6,221, and \$6,416 for the years ended December 31, 2010, 2011 and 2012, respectively. The aggregate future minimum lease commitments for operating leases at December 31, 2012 are as follows:

2013	\$7,128
2014	5,787
2015	5,001
2016	3,531
2017	3,275

Thereafter

8,027

62

---

## Note 4 – Goodwill and Other Intangible Assets

The changes in the net carrying amount of goodwill for the years ended December 31, are as follows:

	2011	2012
Balance as of January 1,	\$295,068	\$234,815
Goodwill impairment	(60,302	) —
Goodwill resulting from business acquisitions	—	22,021
Foreign currency translation	49	(15
		)
Balance as of December 31,	\$234,815	\$256,821

During the fourth quarter of 2011 we performed our annual goodwill impairment testing. We estimated the fair value of the CONMED Patient Care reporting unit utilizing both a market-based approach and an income approach. Under the income approach, we utilized a discounted cash flow valuation methodology and measured the goodwill impairment in accordance with ASC 350. The first step of the impairment test determined the carrying value exceeded fair value and therefore we proceeded to Step 2. Under Step 2, we calculated the amount of impairment loss by measuring the amount the carrying value of goodwill exceeded the implied fair value of the goodwill. We determined the goodwill of our CONMED Patient Care reporting unit was impaired as a result of lower future earnings due to pricing pressures in a number of our product lines and consequently we recorded a goodwill impairment charge of \$60.3 million to reduce the carrying amount of the unit's goodwill to its implied fair value.

Total accumulated impairment losses (associated with our CONMED Patient Care and CONMED Endoscopic Technologies reporting units) aggregated \$106,991 at both December 31, 2011 and 2012, respectively.

Goodwill associated with each of our principal reporting units at December 31, is as follows:

	2011	2012
CONMED Electrosurgery	\$16,645	\$16,645
CONMED Endosurgery	42,439	42,439
CONMED Linvatec	175,731	197,737
Balance as of December 31,	\$234,815	\$256,821

During 2012, we acquired Viking Systems, Inc. and recorded goodwill of \$22.0 million to our CONMED Linvatec reporting unit. Refer to Note 16 for further details.

Other intangible assets consist of the following:

Edgar Filing: CONMED CORP - Form 10-K

	December 31, 2011		December 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	\$ 133,965	\$(45,112 )	\$ 135,690	\$(50,083 )
Patents and other intangible assets	52,702	(34,368 )	54,412	(37,554 )
Unamortized intangible assets:				
Trademarks and tradenames	88,344	—	88,344	—
	\$275,011	\$(79,480 )	\$278,446	\$(87,637 )

Other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. The weighted average amortization period for intangible assets which are amortized is 29 years. Customer relationships are being amortized over a weighted average life of 33 years. Patents and other intangible assets are being amortized over a weighted average life of 14 years.

Trademarks and tradenames were recognized principally in connection with the 1997 acquisition of Linvatec Corporation. We continue to market products, release new product and product extensions and maintain and promote these trademarks and tradenames in the marketplace through legal registration and such methods as advertising, medical education and trade shows. It is our belief that these trademarks and tradenames will generate cash flow for an indefinite period of time. Therefore, our trademarks and tradenames intangible assets are not amortized.

During 2011, CONMED acquired our former distributor in the Nordic region of Europe. The fair value of this acquisition included assets of \$6.4 million related to customer relationships. During 2011, we also purchased patents totaling \$3.0 million and recorded a related deferred tax liability of \$1.8 million.

On January 3, 2012, the Company entered into a Sports Medicine Joint Development and Distribution Agreement (the "JDDA") with Musculoskeletal Transplant Foundation ("MTF") to obtain (i) MTF's worldwide promotional rights with respect to allograft tissues within the field of sports medicine, and (ii) an exclusive license to an autograft (patient's own) blood Platelet-Rich Plasma ("PRP") therapy technology and products (collectively, the "Transaction"). 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. 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 in equal installments in each year thereafter. At December 31, 2012, the gross carrying amount of this arrangement amounted to \$149.4 million and the related accumulated amortization was \$6.0 million. This has been recorded in other assets and is being amortized on a straight line basis over the 25 year term of the JDDA. Amortization expense is recorded as a reduction to sales. The \$84.0 million related to the contingent payment was 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 for the year ending December 31, 2012 and estimated amortization expense for each of the five succeeding years is as follows:

2012	\$7,807
------	---------

2013	7,836
2014	7,211
2015	6,821
2016	6,719
2017	6,707

## Note 5 — Long Term Debt

Long-term debt consists of the following at December 31,:

	2011	2012
Revolving line of credit	\$80,000	\$153,000
Term loan borrowings on senior credit facility	53,588	—
2.50% convertible senior subordinated notes	327	227
Mortgage notes	9,594	8,625
Total long-term debt	143,509	161,852
Less: Current portion	54,557	1,050
	\$88,952	\$160,802

Our senior credit agreement at December 31, 2012 consisted of a \$250.0 million revolving credit facility. There were \$153.0 million in borrowings outstanding on the revolving credit facility as of December 31, 2012. Our available borrowings on the revolving credit facility at December 31, 2012 were \$87.2 million with approximately \$9.8 million of the facility set aside for outstanding letters of credit. As described in Note 4, we entered into a distribution and development agreement with Musculoskeletal Transplant Foundation (“MTF”) on January 3, 2012 and used cash on hand and available borrowings under our revolving credit facility to fund the up front payment of \$63.0 million. We expect to fund the remaining \$84.0 million in contingent payments, including the \$34.0 million paid on January 3, 2013, through cash on hand and available borrowings under our revolving credit facility as these payments come due over the next four years.

Borrowings outstanding on the revolving credit facility were due and payable on November 30, 2015. Interest rates on the revolving credit facility portion of the senior credit agreement were at LIBOR plus 1.75% (2.22% at December 31, 2012) 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 or the Federal Funds Rate in effect on such date plus a margin of 1.00% for borrowings under the revolving credit facility.

The senior credit agreement is collateralized by substantially all of our personal property and assets. The 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 are also required, under certain circumstances, to make mandatory prepayments from net cash proceeds from any issuance of equity and asset sales.

As further described in Note 17, 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.

We have a mortgage note outstanding in connection with the property and facilities utilized by our CONMED Linvatec subsidiary 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 \$8.6 million at December 31, 2012. The mortgage note is collateralized by the CONMED Linvatec property and facilities.



On November 15, 2011 holders of the 2.50% convertible senior subordinated notes due 2024 (“the Notes”) put to us and we were required to repurchase \$111.8 million of the Notes at par; \$0.2 million remains outstanding at December 31, 2012. We used cash on hand and borrowings under our revolving credit facility to fund the repurchase. During 2010, we repurchased and retired \$3.0 million of the Notes for \$2.9 million and recorded a loss on the early extinguishment of debt of \$0.1 million. The Notes represent subordinated unsecured obligations and are convertible under certain circumstances, as defined in the indenture for the Notes, into a combination of cash and CONMED common stock. The Notes mature on November 15, 2024 and are

redeemable by us at any time. Holders of the Notes have the right to put to us some or all of the Notes for repurchase on November 15, 2014 and 2019 and, provided the terms of the indenture for the Notes are satisfied, we will be required to repurchase the Notes.

Our effective borrowing rate for nonconvertible debt at the time of issuance of the Notes was estimated to be 6.67%, which resulted in \$34.6 million of the \$150.0 million aggregate principal amount of Notes issued, or \$21.8 million after taxes, being attributable to equity. For the years ended December 31, 2010 and 2011, we recorded interest expense related to the amortization of debt discount on the Notes of \$4.2 million and \$3.9 million, respectively, at the effective interest rate of 6.67%. The debt discount on the Notes was amortized through November 2011. For the years ended December 31, 2010, 2011 and 2012, we recorded interest expense on the Notes of \$2.8 million, \$2.5 million, and \$0.0 million respectively, at the contractual coupon rate of 2.50%.

The scheduled maturities of long-term debt outstanding at December 31, 2012 are as follows:

2013	\$1,050
2014	1,367
2015	1,234
2016	1,339
2017	1,452
Thereafter	155,410

#### Note 6 — Income Taxes

The provision (benefit) for income taxes for the years ended December 31, 2010, 2011 and 2012 consists of the following:

	2010	2011	2012
Current tax expense (benefit):			
Federal	\$(717	) \$3,021	\$503
State	232	1,596	374
Foreign	2,638	5,424	5,176
	2,153	10,041	6,053
Deferred income tax expense (benefit)	13,158	(13,098	) 12,946
Provision (benefit) for income taxes	\$15,311	\$(3,057	) \$18,999

A reconciliation between income taxes computed at the statutory federal rate and the provision for income taxes for the years ended December 31, 2010, 2011 and 2012 follows:

Edgar Filing: CONMED CORP - Form 10-K

	2010		2011		2012	
Tax provision (benefit) at statutory rate based on income before income taxes	35.00	%	(35.00)	)%	35.00	%
State income taxes, net of federal tax benefit	2.55		22.73		1.56	
Stock-based compensation	0.01		(1.61)	)	(0.16)	)
Foreign income taxes	0.07		1.35		(5.44)	)
Impact of repatriation of foreign earnings	—		(57.51)	)	—	
Research & development credit	(1.83)	)	(32.25)	)	—	
Settlement of taxing authority examinations	(3.27)	)	(6.55)	)	(0.80)	)
Non deductible/non-taxable items	1.22		(13.28)	)	1.33	
Other, net	(0.22)	)	(10.50)	)	0.45	
	33.53	%	(132.62)	)%	31.94	%

The tax effects of the significant temporary differences which comprise the deferred income tax assets and liabilities at December 31, 2011 and 2012 are as follows:

	2011	2012
Assets:		
Inventory	\$4,288	\$4,370
Net operating losses	—	191
Capitalized research and development	4,561	2,410
Deferred compensation	2,631	2,905
Accounts receivable	2,968	2,759
Employee benefits	5,984	5,915
Accrued pension	9,530	9,020
Research and development credit	1,696	3,378
Other	2,604	3,973
	34,262	34,921
Liabilities:		
Goodwill and intangible assets	101,514	111,770
Depreciation	9,500	13,146
State taxes	2,975	4,157
Contingent interest	386	378
	114,375	129,451
Net liability	\$(80,113)	\$(94,530)

Income before income taxes consists of the following U.S. and foreign income:



Edgar Filing: CONMED CORP - Form 10-K

	2010	2011	2012
U.S. income	\$37,953	\$(20,521	) \$33,121
Foreign income	7,704	18,216	26,359
Total income	\$45,657	\$(2,305	) \$59,480

The amount of Federal Research and Development credit carryforward available is \$3.4 million. These credits begin to expire in 2027.

Deferred tax amounts include approximately \$3.3 million of future tax benefits associated with state tax credits which have an indefinite carryforward period.

As a result of the contingent interest deferred tax liability realized upon the convertible notes repurchase during the fourth quarter of 2011, the Company reevaluated our unremitted foreign earnings and tax credit carryforwards. Based upon this assessment, we repatriated \$16.2 million of foreign earnings to the United States. The company recorded a net tax benefit of \$1.3 million in 2011 to recognize the tax liabilities and related foreign tax credit benefits associated with the repatriation. It is our intention to permanently reinvest the remaining amount of unremitted foreign earnings.

U.S. income and foreign withholding taxes have not been recognized on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration. The amount of such temporary differences totaled \$58.8 million as of December 31, 2012. It is not practicable given the complexities of the hypothetical foreign tax credit calculation to determine the tax liability on this temporary difference.

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.

We recognize tax liabilities in accordance with the provisions for accounting for uncertainty in income taxes. Such guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The following table summarizes the activity related to our unrecognized tax benefits for the years ending December 31,:

	2010	2011	2012	
Balance as of January 1,	\$1,869	\$1,330	\$2,343	
Increases for positions taken in prior periods	52	283	30	
Increases for positions taken in current periods	166	789	1,129	
Decreases in unrecorded tax positions related to settlement with the taxing authorities	(757	) —	(1,857	)
	—	(59	) (58	)

Decreases in unrecorded tax positions related to lapse of statute of limitations

Balance as of December 31,	\$1,330	\$2,343	\$1,587
----------------------------	---------	---------	---------

If the total unrecognized tax benefits of \$1.6 million at December 31, 2012 were recognized, it would reduce our annual effective tax rate. The amount of interest accrued in 2012 related to these unrecognized tax benefits was not material and is included in the provision for income taxes in the consolidated statements of comprehensive income. It is reasonably possible that the amount of unrecognized tax benefits, each of which are individually insignificant, could change in the next 12 months as a

result of the anticipated completion of taxing authority examinations and lapse of statute of limitations. The range of change in unrecognized tax benefits is estimated between \$0.0 million and \$1.1 million.

Note 7 – Shareholders’ Equity

Our shareholders have authorized 500,000 shares of preferred stock, par value \$.01 per share, which may be issued in one or more series by the Board of Directors without further action by the shareholders. As of December 31, 2011 and 2012, no preferred stock had been issued.

Our Board of Directors has authorized a \$200.0 million share repurchase program. Through December 31, 2012, we have repurchased a total of 4.1 million shares of common stock aggregating \$95.1 million under this authorization and have \$104.9 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. During 2012, we repurchased 0.1 million shares for an aggregate cost of \$3.9 million. During 2011, we repurchased 0.7 million shares for an aggregate cost of \$15.0 million. During 2010, we repurchased 1.2 million shares for an aggregate cost of \$23.0 million.

We have reserved 7.0 million shares of common stock for issuance to employees and directors under three shareholder-approved share-based compensation plans (the "Plans") of which approximately 1.4 million shares remain available for grant at December 31, 2012. The exercise price on all outstanding options and stock appreciation rights (“SARs”) is equal to the quoted fair market value of the stock at the date of grant. Restricted stock units (“RSUs”) and performance stock units (“PSUs”) are valued at the market value of the underlying stock on the date of grant. Stock options, SARs, RSUs and PSUs are non-transferable other than on death and generally become exercisable over a five year period from date of grant. Stock options and SARs expire ten years from date of grant. SARs are only settled in shares of the Company’s stock. The issuance of shares pursuant to the exercise of stock options and SARs and vesting of RSUs and PSUs are from the Company’s treasury stock.

Total pre-tax stock-based compensation expense recognized in the consolidated statements of comprehensive income was \$4.2 million, \$5.2 million and \$5.7 million for the years ended December 31, 2010, 2011 and 2012, respectively. This amount is included in selling and administrative expenses on the consolidated statements of comprehensive income. Tax related benefits of \$1.6 million, \$1.9 million and \$2.1 million were also recognized for the years ended December 31, 2010, 2011 and 2012, respectively. Cash received from the exercise of stock options was \$2.0 million, \$5.6 million and \$9.6 million for the years ended December 31, 2010, 2011 and 2012, respectively, and is reflected in cash flows from financing activities in the consolidated statements of cash flows.

The Company uses the Black-Scholes option pricing model to estimate the fair value of options and SARs at the date of grant. Use of a valuation model requires management to make certain assumptions with respect to select model inputs. Expected volatilities are based upon historical volatility of the Company’s stock over a period equal to the expected life of each option and SAR grant. The risk free interest rate is based on the option and SAR grant date for a traded U.S. Treasury bond with a maturity date closest to the expected life. The expected annual dividend yield is based on the Company's anticipated cash dividend payouts. The expected life represents the period of time that the options and SARs are expected to be outstanding based on a study of historical data of option holder exercise and termination behavior.

The following table illustrates the assumptions used in estimating fair value in the years ended December 31, 2010, 2011 and 2012.

	2010	2011	2012
Fair value of options & SARs	\$7.72	\$10.43	\$7.38

Edgar Filing: CONMED CORP - Form 10-K

Expected stock price volatility	36.72	% 35.52	% 35.84	%
Risk-free interest rate	2.07	% 1.59	% 0.62	%
Expected annual dividend yield	—	% —	% 2.00	%
Expected life of options (years)	6.4	6.3	6.4	

The following table illustrates the stock option and SAR activity for the year ended December 31, 2012.

69

---



	Number of Shares (in 000's)	Weighted- Average Exercise Price
Outstanding at December 31, 2011	2,129	\$24.58
Granted	159	\$26.09
Forfeited	(31)	) \$23.20
Exercised	(488)	) \$22.22
Outstanding at December 31, 2012	1,769	\$25.35
Exercisable at December 31, 2012	1,289	\$25.97

The weighted average remaining contractual term for stock options and SARs outstanding and exercisable at December 31, 2012 was 4.7 years and 3.4 years, respectively. The aggregate intrinsic value of stock options and SARs outstanding and exercisable at December 31, 2012 was \$6.0 million and \$4.0 million, respectively. The aggregate intrinsic value of stock options and SARs exercised during the years ended December 31, 2010, 2011 and 2012 was \$1.2 million, \$2.0 million and \$3.3 million, respectively.

The following table illustrates the RSU and PSU activity for the year ended December 31, 2012.

	Number of Shares (in 000's)	Weighted- Average Grant-Date Fair Value
Outstanding at December 31, 2011	508	\$23.43
Granted	272	\$26.18
Vested	(158)	) \$24.03
Forfeited	(101)	) \$25.83
Outstanding at December 31, 2012	521	\$24.25

The weighted average fair value of awards of RSUs and PSUs granted in the years ended December 31, 2010, 2011 and 2012 was \$19.26, \$27.48 and \$26.18, respectively.

The total fair value of shares vested was \$2.8 million, \$3.6 million and \$4.4 million for the years ended December 31, 2010, 2011 and 2012, respectively.

As of December 31, 2012, there was \$12.9 million of total unrecognized compensation cost related to nonvested stock options, SARs, RSUs and PSUs granted under the Plan which is expected to be recognized over a weighted average period of 3.4 years.

We offer to our employees a shareholder-approved Employee Stock Purchase Plan (the "Employee Plan"), under which we have reserved 1.0 million shares of common stock for issuance to our employees. The Employee Plan provides employees with the opportunity to invest from 1% to 10% of their annual salary to purchase shares of CONMED common stock through the exercise of stock options granted by the Company at a purchase price equal to 95% of the

fair market value of the common stock on the exercise date. During 2012, we issued approximately 20,775 shares of common stock under the Employee Plan. No stock-based compensation expense has been recognized in the accompanying consolidated financial statements as a result of common stock issuances under the Employee Plan.

Note 8 — Business Segments and Geographic Areas

CONMED conducts its business through five principal operating segments, CONMED Endoscopic Technologies, CONMED Endosurgery, CONMED Electrosurgery, CONMED Linvatec and CONMED Patient Care. We believe each of our segments are similar in the nature of products, production processes, customer base, distribution methods and regulatory environment. Our CONMED Endosurgery, CONMED Electrosurgery and CONMED Linvatec operating segments also have

similar economic characteristics and therefore qualify for aggregation. Our CONMED Patient Care and CONMED Endoscopic Technologies operating segments do not qualify for aggregation since their economic characteristics do not meet the criteria for aggregation as a result of the lower overall operating income (loss) in these segments.

CONMED Endosurgery, CONMED Electrosurgery and CONMED Linvatec consist of a single aggregated reportable segment comprising a complete line of endo-mechanical instrumentation for minimally invasive laparoscopic procedures, electrosurgical generators and related surgical instruments, arthroscopic instrumentation for use in orthopedic surgery and small bone, large bone and specialty powered surgical instruments. CONMED Patient Care product offerings include a line of vital signs and cardiac monitoring products as well as suction instruments & tubing for use in the operating room. CONMED Endoscopic Technologies product offerings include a comprehensive line of minimally invasive endoscopic diagnostic and therapeutic instruments used in procedures which require examination of the digestive tract.

The following is net sales information by product line and reportable segment:

	2010	2011	2012
Arthroscopy	\$288,421	\$289,878	\$330,567
Powered Surgical Instruments	142,288	147,849	149,968
CONMED Linvatec	430,709	437,727	480,535
CONMED Electrosurgery	97,210	98,632	95,743
CONMED Endosurgery	69,004	73,716	73,995
CONMED Linvatec, Electrosurgery, and Endosurgery	596,923	610,075	650,273
CONMED Patient Care	68,283	65,651	63,697
CONMED Endoscopic Technologies	48,517	49,351	53,170
Total	\$713,723	\$725,077	\$767,140

Total assets, capital expenditures, depreciation and amortization information are impracticable to present by reportable segment because the necessary information is not available.

The following is a reconciliation between segment operating income (loss) and income (loss) before income taxes. The Corporate line includes corporate related items not allocated to reportable segments:

	2010	2011	2012	
CONMED Linvatec, Electrosurgery and Endosurgery	\$77,271	\$89,093	\$81,848	
CONMED Patient Care	(38	) (62,878	) (2,210	)
CONMED Endoscopic Technologies	(1,315	) 273	2,738	)
Corporate	(18,825	) (18,214	) (17,166	)
Income from operations	57,093	8,274	65,210	
Loss on early extinguishment of debt	79	—	—	
Amortization of debt discount	4,244	3,903	—	

Edgar Filing: CONMED CORP - Form 10-K

Interest expense	7,113	6,676	5,730
Income (loss) before income taxes	\$45,657	\$(2,305	) \$59,480

71

---

Net sales information for geographic areas consists of the following:

	2010	2011	2012
United States	\$371,914	\$364,588	\$382,256
Canada	61,593	65,794	73,746
United Kingdom	31,576	32,106	31,653
Japan	32,226	34,178	33,997
Australia	34,564	40,122	40,835
All other countries	181,850	188,289	204,653
Total	\$713,723	\$725,077	\$767,140

Sales are attributed to countries based on the location of the customer. There were no significant investments in long-lived assets located outside the United States at December 31, 2011 and 2012. No single customer represented over 10% of our consolidated net sales for the years ended December 31, 2010, 2011 and 2012.

#### Note 9 — Employee Benefit Plans

We sponsor an employee savings plan (“401(k) plan”) and a defined benefit pension plan (the “pension plan”) covering substantially all our United States based employees. The pension plan was frozen in 2009.

Total employer contributions to the 401(k) plan were \$6.5 million, \$6.3 million and \$6.7 million during the years ended December 31, 2010, 2011 and 2012, respectively.

We use a December 31, measurement date for our pension plan. Gains and losses are amortized on a straight-line basis over the average remaining service period of active participants. The following table provides a reconciliation of the projected benefit obligation, plan assets and funded status of the pension plan at December 31,:

	2011	2012
Accumulated Benefit Obligation	\$82,289	\$85,363
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$66,136	\$82,289
Service cost	281	277
Interest cost	3,519	3,429
Actuarial loss	15,305	2,790
Benefits paid	(2,952)	(3,422)
Projected benefit obligation at end of year	\$82,289	\$85,363
Change in plan assets		
Fair value of plan assets at beginning of year	\$55,309	\$51,822
Actual gain (loss) on plan assets	(2,145)	5,866
Employer contributions	1,610	8,497
Benefits paid	(2,952)	(3,422)
Fair value of plan assets at end of year	\$51,822	\$62,763

Funded status \$(30,467 ) \$(22,600 )

Amounts recognized in the consolidated balance sheets consist of the following at December 31,:

72

---

Edgar Filing: CONMED CORP - Form 10-K

	2011	2012
Accrued long-term pension liability	\$30,467	\$22,600
Accumulated other comprehensive loss	(49,563	) (48,176

The following actuarial assumptions were used to determine our accumulated and projected benefit obligations as of December 31,:

	2011	2012
Discount rate	4.30	% 3.90
Expected return on plan assets	8.00	% 8.00

Accumulated other comprehensive loss for the years ended December 31, 2011 and 2012 consists of net actuarial losses of \$49,563 and \$48,176, respectively, not yet recognized in net periodic pension cost (before income taxes).

Other changes in plan assets and benefit obligations recognized in other comprehensive income in 2012 are as follows:

Current year actuarial loss		\$(1,489
Amortization of actuarial loss		2,876
Total recognized in other comprehensive loss		\$1,387

The estimated portion of net actuarial loss in accumulated other comprehensive loss that is expected to be recognized as a component of net periodic pension cost in 2013 is \$2.9 million.

Net periodic pension cost for the years ended December 31, consists of the following:

	2010	2011	2012
Service cost	\$219	\$281	\$277
Interest cost on projected benefit obligation	3,585	3,519	3,429
Return on plan assets	(4,227	) (4,378	) (4,566
Amortization of loss	1,313	1,578	2,876
Net periodic pension cost	\$890	\$1,000	\$2,016

The following actuarial assumptions were used to determine our net periodic pension benefit cost for the years ended December 31,:

	2010	2011	2012
Discount rate	5.86	% 5.41	% 4.30
Expected return on plan assets	8.00	% 8.00	% 8.00
Rate of compensation increase	N/A	N/A	N/A

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.

Asset management objectives include maintaining an adequate level of diversification to reduce interest rate and market risk and providing adequate liquidity to meet immediate and future benefit payment requirements.

73

---



The allocation of pension plan assets by category is as follows at December 31,:

	Percentage of Pension Plan Assets		Target Allocation	
	2011	2012	2013	
Equity securities	69	% 76	% 75	%
Debt securities	31	24	25	
Total	100	% 100	% 100	%

As of December 31, 2012, the Plan held 27,562 shares of our common stock, which had a fair value of \$0.8 million. We believe that our long-term asset allocation on average will approximate the targeted allocation. We regularly review our actual asset allocation and periodically rebalance the pension plan's investments to our targeted allocation when deemed appropriate.

The following table sets forth the fair value of Plan assets as of December 31,:

	2011	2012
Common Stock	\$21,893	\$25,124
Money Market Fund	12,461	5,209
Mutual Funds	14,112	22,810
Fixed Income Securities	3,356	9,620
Total Assets at Fair Value	\$51,822	\$62,763

FASB guidance, defines fair value, establishes a framework for measuring fair value and related disclosure requirements. 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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2011 and 2012:

**Common Stock:** Common stock is valued at the closing price reported on the common stock's respective stock exchange and is classified within level 1 of the valuation hierarchy.

**Money Market Fund:** These investments are public investment vehicles valued using \$1 for the Net Asset Value (NAV). The money market fund is classified within level 2 of the valuation hierarchy.

**Mutual Funds:** These investments are public investment vehicles valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a

quoted price in an active market and is classified within level 1 of the valuation hierarchy.

Fixed Income Securities: Valued at the closing price reported on the active market on which the individual securities are traded and are classified within level 1 of the valuation hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with

other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2011 and December 31, 2012:

December 31, 2011	Level 1	Level 2	Total
Common Stock	\$21,893	\$—	\$21,893
Money Market Fund	—	12,461	12,461
Mutual Funds	14,112	—	14,112
Fixed Income Securities	3,356	—	3,356
	\$39,361	\$12,461	\$51,822
December 31, 2012	Level 1	Level 2	Total
Common Stock	\$25,124	\$—	\$25,124
Money Market Fund	—	5,209	5,209
Mutual Funds	22,810	—	22,810
Fixed Income Securities	9,620	—	9,620
	\$57,554	\$5,209	\$62,763

We expect to contribute approximately \$7.5 million to our pension plan for the 2013 Plan year.

The following table summarizes the benefits expected to be paid by our pension plan in each of the next five years and in aggregate for the following five years. The expected benefit payments are estimated based on the same assumptions used to measure the Company's projected benefit obligation at December 31, 2012 and reflect the impact of expected future employee service.

2013	\$2,503
2014	2,901
2015	2,989
2016	2,756
2017	3,359
2018-2022	21,336

#### Note 10 — Legal Matters

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 required as a matter of law. In some cases we may be entitled to indemnification by third parties. When there is no insurance coverage, as would typically be the case primarily in lawsuits alleging patent infringement or in connection with certain government

investigations, or indemnification obligations of a third party, we establish reserves sufficient to cover probable losses associated with such 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 CONMED Linvatec. The Complaint asserts that certain CONMED Linvatec products infringe patents allegedly owned by Bonutti Skeletal Innovations. On the same day that it sued CONMED, Bonutti Skeletal Innovations sued several other orthopedic companies. CONMED and CONMED Linvatec believe that the products in question do not infringe the patents-in-suit, and CONMED and CONMED Linvatec intend to vigorously defend the claims. A range of potential losses cannot be estimated at this time.

#### Note 11 — Other Expense

Other expense for the year ended December 31, consists of the following:

	2010	2011	2012
Administrative consolidation costs	\$2,176	\$792	\$6,497
Costs associated with purchase of a distributor	—	300	704
Costs associated with legal arbitration	—	—	1,555
Costs associated with purchase of a business	—	—	1,194
Other expense	\$2,176	\$1,092	\$9,950

During 2010, we recorded a lease impairment charge of \$0.7 million related to our Chelmsford, Massachusetts facility.

During 2010 and 2012, we consolidated certain administrative functions in our CONMED Linvatec operating segment and incurred \$1.5 million and \$6.5 million, respectively, in related costs consisting principally of severance charges.

During 2011, we consolidated certain administrative functions in our Utica, New York facility and incurred \$0.8 million in related costs consisting principally of severance charges.

During 2011, we purchased the Company's former distributor for the Nordic region of Europe. We incurred \$0.3 million and \$0.7 million in 2011 and 2012, respectively, in charges associated with this purchase.

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. We incurred costs totaling \$1.6 million.

During 2012, we acquired Viking Systems Inc. as further described in Note 16. We incurred a total of \$1.2 million in costs associated with the purchase.

## Note 12 — 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 year ended December 31, are as follows:

	2010	2011	2012
Balance as of January 1,	\$3,383	\$3,363	\$3,618
Provision for warranties	3,510	4,344	4,163
Claims made	(3,530	) (4,089	) (4,145
Balance as of December 31,	\$3,363	\$3,618	\$3,636

## Note 13 – Fair Value Measurement

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 forecasted intercompany sales 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 December 31, 2012 which have been accounted for as cash flow hedges totaled \$90.3 million. Net realized gains (losses) recognized for forward contracts accounted for as cash flow hedges approximated \$2.0 million, \$(4.7) million and \$3.8 million for the years ended December 31, 2010, 2011, and 2012, respectively. Net unrealized losses on forward contracts outstanding which have been accounted for as cash flow hedges and which have been included in other comprehensive income totaled \$1.1 million at December 31, 2012. It is expected these unrealized losses will be recognized in the consolidated statement of comprehensive income in 2013.

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 December 31, 2012 which have not been designated as hedges totaled \$47.3 million. Net realized gains (losses) recognized in connection with those forward contracts not accounted for as hedges approximated \$0.3 million, \$0.0 million and \$(2.1) million for the years ended December 31, 2010, 2011, and 2012, respectively, offsetting gains (losses) on our intercompany receivables of \$(0.7) million, \$(0.3) million and \$0.8

million for the years ended December 31, 2010, 2011, and 2012, respectively. These gains and losses have been recorded in selling and administrative expense in the consolidated statements of comprehensive income.

We record these forward foreign exchange contracts at fair value; the following table summarizes the fair value for forward foreign exchange contracts outstanding at December 31, 2011 and December 31, 2012:

77

---



Edgar Filing: CONMED CORP - Form 10-K

December 31, 2011	Asset Balance Sheet Location	Fair Value	Liabilities Balance Sheet Location	Fair Value	Net Fair Value
Derivatives designated as hedged instruments:					
Foreign exchange contracts	Prepaid expenses and other current assets	\$5,042	Prepaid expenses and other current assets	\$(326 )	\$4,716
Derivatives not designated as hedging instruments:					
Foreign exchange contracts	Prepaid expenses and other current assets	41	Prepaid expenses and other current assets	(95 )	(54 )
Total derivatives		\$5,083		\$(421 )	\$4,662
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

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, 2011 and December 31, 2012 we have recorded the net fair value of \$4.7 million in prepaids and other current assets and \$1.9 million in other current liabilities, respectively.

**Fair Value Disclosure.** FASB guidance defines fair value, 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.

**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

78

---

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 December 31, 2012 consist of forward foreign exchange contracts. The value of the forward foreign exchange contract assets and liabilities and the Notes 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 excluding the 2.50% convertible senior subordinated notes approximate fair value. The fair value of the Notes approximated \$0.3 million and \$0.2 million at December 31, 2011 and December 31, 2012, respectively, based on their quoted market price. See Note 5 for additional discussion of the Notes.

#### Note 14 - New Accounting Pronouncements

In May 2011, the FASB issued new authoritative guidance to provide a consistent definition of fair value and ensure that fair value measurements and disclosure requirements are similar between GAAP and International Financial Reporting Standards. This guidance changes certain fair value measurement principles and enhances the disclosure requirements for fair value measurements. We adopted this guidance effective January 1, 2012. The implementation of this new guidance did not have a material impact on our consolidated financial statements.

In June 2011, the FASB amended its guidance on the presentation of comprehensive income in financial statements to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items that are recorded in other comprehensive income. The new accounting guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. We adopted this guidance effective January 1, 2012.

In July 2012, the FASB issued ASU 2012-02 which provides an entity the option to first assess qualitative factors to determine whether it is necessary to perform a more detailed impairment analysis for indefinite-lived intangible assets other than goodwill. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not the asset is impaired, then a quantitative impairment test is required. Otherwise, no further testing is required. The implementation of this new guidance did not have a material impact on our consolidated financial statements.

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 is not expected to have a material impact on our consolidated financial statements.

#### Note 15 – Restructuring

During 2010, 2011, and 2012 we incurred the following restructuring costs:

	2010	2011	2012
Facility consolidation costs	\$2,397	\$3,467	\$7,052
Termination of a product offering	2,489	—	—
Restructuring costs included in cost of sales	\$4,886	\$3,467	\$7,052
Administrative consolidation costs	\$2,176	\$792	\$6,497

Restructuring costs included in other expense	\$2,176	\$792	\$6,497
---	---------	-------	---------

During 2008, we announced a plan to restructure certain of our operations. During 2010, 2011 and 2012, 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. During the second quarter of 2012, we began the

79

---

consolidation of our Finland operations into our Largo, Florida and Utica, New York manufacturing facilities. For the years ending December 31, 2010, 2011 and 2012, we charged \$2.4 million, \$3.5 million, and \$7.1 million, respectively, to cost of goods sold within our CONMED Linvatec operating segment. These costs include severance and other charges associated with the transfer of production to Mexico and consolidation of our Finland operations. We have recorded an accrual in current liabilities of \$3.6 million at December 31, 2012 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.

As part of our ongoing restructuring, the Company discontinued certain product offerings within our CONMED Linvatec portfolio. These product offerings include the service arms and service managers associated with our integrated operating room systems and equipment line. During 2010, we incurred \$2.5 million in costs associated with this termination of a product offering which were charged to cost of goods sold.

Restructuring costs included in other expense are described more fully in Note 11.

#### Note 16 – Business Acquisition

On September 24, 2012, we purchased Viking Systems, Inc. ("Viking acquisition") for approximately \$22.5 million in cash. Viking Systems, Inc. developed, manufactured and marketed visualization solutions for minimally invasive surgeries.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as a result of the Viking acquisition. The allocation of purchase price is preliminary and therefore subject to adjustment in future periods.

Cash	\$390
Accounts receivable	1,349
Inventory	2,562
Prepaid expenses and other current assets	151
Property, plant & equipment, net	117
Customer relationships	1,725
Patents	1,100
Goodwill	22,021
Total assets acquired	29,415
Accounts payable	1,324
Deferred income taxes	827
Other liabilities	4,736
Total liabilities assumed	6,887
Net assets acquired	\$22,528

The goodwill recorded as part of the acquisition is primarily a result of planned synergies. The goodwill is recorded as part of our CONMED Linvatec operating segment and is not deductible for tax purposes.

The weighted average amortization period for intangible assets acquired is 9 years. Patents are being amortized over a weighted average life of 9 years. Customer relationships are being amortized over a weighted average life of 10 years.

The unaudited pro forma statements of operations for the years ended December 31, 2011 and 2012, assuming the Viking acquisition occurred as of January 1, 2011 are presented below. These pro forma statements of operations have

been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the Viking acquisition occurred on the dates indicated, or which may result in the future.

Edgar Filing: CONMED CORP - Form 10-K

	2011	2012
Net sales	\$735,857	\$774,239
Net income	(2,176	) 38,018
Earnings per share:		
Basic	\$(0.08	) \$1.34
Diluted	(0.08	) 1.33

Net sales of \$3.4 million and a pre-tax loss of \$1.5 million have been recorded in the consolidated statement of comprehensive income for the year ended December 31, 2012 related to the Viking acquisition.

Note 17 - Subsequent Events

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.

Note 18 — Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data for 2011 and 2012 are as follows:

	Three Months Ended			
	March	June	September	December
2011				
Net sales	\$183,450	\$183,236	\$172,814	\$185,577
Gross profit	95,716	91,455	91,311	96,452
Net income (loss)	8,995	8,680	8,211	(25,134
EPS:				)
Basic	.32	.31	.29	(.90
Diluted	.31	.30	.29	(.90

	Three Months Ended			
	March	June	September	December
2012				
Net sales	\$194,316	\$189,695	\$181,885	\$201,244
Gross profit	100,911	99,732	97,913	107,287
Net income	9,968	10,296	9,320	10,897
EPS:				
Basic	.36	.36	.33	.38
Diluted	.35	.36	.32	.38

Items Included In Selected Quarterly Financial Data:

2011

First Quarter

During the first quarter of 2011, we incurred \$0.8 million in costs associated with the moving of additional product lines to our manufacturing facility in Chihuahua, Mexico. These costs were charged to cost of goods sold – see Note 15.

81

---



During the first quarter of 2011, we recorded a charge of \$0.7 million to other expense related to consolidating certain administrative functions in our Utica, New York facility consisting principally of severance charges - see Note 11 and Note 15.

#### Second Quarter

During the second quarter of 2011, we incurred \$1.0 million in costs associated with the moving of additional product lines to our manufacturing facility in Chihuahua, Mexico. These costs were charged to cost of goods sold – see Note 15.

During the second quarter of 2011, we recorded a charge of \$0.1 million to other expense related to consolidating certain administrative functions in our Utica, New York facility consisting principally of severance charges - see Note 11 and Note 15.

#### Third Quarter

During the third quarter of 2011, we incurred \$0.8 million in costs associated with the moving of additional product lines to our manufacturing facility in Chihuahua, Mexico. These costs were charged to cost of goods sold – see Note 15.

#### Fourth Quarter

During the fourth quarter of 2011, we incurred \$0.9 million in costs associated with the moving of additional product lines to our manufacturing facility in Chihuahua, Mexico. These costs were charged to cost of goods sold – see Note 15.

During the fourth quarter of 2011, after completing our annual goodwill impairment testing, we determined that the goodwill of our Patient Care operating unit was impaired and consequently we recorded a goodwill impairment charge of \$60.3 million - see Note 4.

During the fourth quarter of 2011, we purchased the Company's former distributor for the Nordic region of Europe. We incurred \$0.3 million in charges associated with this purchase - see Note 11.

### 2012

#### First Quarter

During the first quarter of 2012, we incurred \$1.5 million in costs associated with the moving of additional product lines to our manufacturing facility in Chihuahua, Mexico. These costs were charged to cost of goods sold – see Note 15.

During the first quarter of 2012, we recorded a charge of \$0.3 million to other expense related to consolidating certain administrative functions in our CONMED Linvatec operating segment - see Note 11 and Note 15.

During the first quarter of 2012, we incurred \$0.7 million in costs associated with the purchase of the Company's former distributor for the Nordic region of Europe - see Note 11.

During the first quarter of 2012, we recorded a charge of \$1.0 million to other expense related to legal costs associated with a contractual dispute with a former distributor - see Note 11.

#### Second Quarter

During the second quarter of 2012, we incurred \$1.2 million in costs associated with the moving of additional product lines to our manufacturing facility in Chihuahua, Mexico and consolidation of our Finland operations into our Largo, Florida and Utica, New York manufacturing facilities. These costs were charged to cost of goods sold – see Note 15.

During the second quarter of 2012, we recorded a charge of \$1.2 million to other expense related to consolidating certain administrative functions in our CONMED Linvatec operating segment - see Note 11 and Note 15.

During the second quarter of 2012, we recorded a charge of \$0.5 million to other expense related to legal costs associated with a contractual dispute with a former distributor - see Note 11.

### Third Quarter

During the third quarter of 2012, we incurred \$1.8 million in costs associated with the moving of additional product lines to our manufacturing facility in Chihuahua, Mexico and consolidation of our Finland operations into our Largo, Florida and Utica, New York manufacturing facilities. These costs were charged to cost of goods sold – see Note 15.

During the third quarter of 2012, we recorded a charge of \$1.9 million to other expense related to consolidating certain administrative functions in our CONMED Linvatec operating segment - see Note 11 and Note 15.

During the third quarter of 2012, we recorded a charge of \$0.7 million to other expense related to the acquisition of Viking Systems, Inc. - see Notes 11 and 16.

### Fourth Quarter

During the fourth quarter of 2012, we incurred \$2.5 million in costs associated with the moving of additional product lines to our manufacturing facility in Chihuahua, Mexico and consolidation of our Finland operations into our Largo, Florida and Utica, New York manufacturing facilities. These costs were charged to cost of goods sold – see Note 15.

During the fourth quarter of 2012, we recorded a charge of \$3.1 million to other expense related to consolidating certain administrative functions in our CONMED Linvatec operating segment - see Note 11 and Note 15.

During the fourth quarter of 2012, we recorded a charge of \$0.5 million to other expense related to the acquisition of Viking Systems, Inc. - see Notes 11 and 16.

SCHEDULE II—Valuation and Qualifying Accounts  
(in thousands)

Column A Description	Column B Balance at Beginning of Period	Column C Additions		Column D Deductions	Column E Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts		
2012					
Allowance for bad debts	\$1,183	\$530	\$—	\$(510)	) \$1,203
Sales returns and allowance	4,097	317	—	(805)	) 3,609
Deferred tax asset valuation allowance	—	—	—	—	—
2011					
Allowance for bad debts	\$1,066	\$3,935	\$—	\$(3,818)	) \$1,183
Sales returns and allowance	3,980	291	—	(174)	) 4,097
Deferred tax asset valuation allowance	226	—	—	(226)	) —
2010					
Allowance for bad debts	\$1,175	\$397	\$—	\$(506)	) \$1,066
Sales returns and allowance	3,356	721	—	(97)	) 3,980
Deferred tax asset valuation allowance	1,058	226	—	(1,058)	) 226