

CONMED CORP
Form 10-Q
October 28, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended Commission File Number
September 30, 2016 0-16093

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

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

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

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

Yes 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 such shorter period that the registrant was required to submit and post such files).

Yes No

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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting

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company" 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

The number of shares outstanding of registrant's common stock, as of October 25, 2016 is 27,823,701 shares.

CONMED CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2016

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PART I FINANCIAL INFORMATION

Item 1.

CONMED CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, in thousands except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net sales	\$184,792	\$169,184	\$559,426	\$528,151
Cost of sales	83,583	75,638	258,055	248,825
Gross profit	101,209	93,546	301,371	279,326
Selling and administrative expense	79,009	72,056	251,681	220,423
Research and development expense	8,353	6,652	24,620	20,695
Operating expenses	87,362	78,708	276,301	241,118
Income from operations	13,847	14,838	25,070	38,208
Other expense	—	—	2,942	—
Interest expense	3,861	1,504	11,448	4,453
Income before income taxes	9,986	13,334	10,680	33,755
Provision for income taxes	2,649	4,461	2,724	11,109
Net income	\$7,337	\$8,873	\$7,956	\$22,646
Comprehensive income	\$7,901	\$3,741	\$10,033	\$8,656
Per share data:				
Net income				
Basic	\$0.26	\$0.32	\$0.29	\$0.82
Diluted	0.26	0.32	0.28	0.81
Dividends per share of common stock	\$0.20	\$0.20	\$0.60	\$0.60
Weighted average common shares				
Basic	27,818	27,701	27,785	27,636
Diluted	27,951	27,898	27,946	27,853

See notes to consolidated condensed financial statements.

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

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 26,948	\$ 72,504
Accounts receivable, net	133,190	133,863
Inventories	188,528	166,894
Prepaid expenses and other current assets	20,710	20,076
Total current assets	369,376	393,337
Property, plant and equipment, net	123,446	125,452
Goodwill	398,376	260,651
Other intangible assets, net	424,216	308,171
Other assets	15,310	14,089
Total assets	\$ 1,330,724	\$ 1,101,700

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt	\$ 10,145	\$ 1,339
Accounts payable	36,704	34,720
Accrued compensation and benefits	31,304	31,823
Other current liabilities	34,707	51,836
Total current liabilities	112,860	119,718
Long-term debt	490,176	269,471
Deferred income taxes	119,018	103,379
Other long-term liabilities	24,495	24,059
Total liabilities	746,549	516,627

Commitments and contingencies

Shareholders' equity:

Preferred stock, par value \$.01 per share; authorized 500,000 shares; none outstanding	—	—
Common stock, par value \$.01 per share; 100,000,000 shares authorized; 31,299,194 shares issued in 2016 and 2015, respectively	313	313
Paid-in capital	327,595	324,915
Retained earnings	405,790	414,506
Accumulated other comprehensive loss	(51,817) (53,894)
Less: 3,481,351 and 3,590,409 shares of common stock in treasury, at cost in 2016 and 2015, respectively	(97,706) (100,767)
Total shareholders' equity	584,175	585,073

Total liabilities and shareholders' equity	\$ 1,330,724	\$ 1,101,700
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See notes to consolidated condensed financial statements.

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

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$7,956	\$22,646
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,242	13,919
Amortization	25,968	18,389
Stock-based compensation	6,505	5,561
Deferred income taxes	(3,977)	4,159
Gain on sale of facility	(1,890)	—
Loss on early extinguishment of debt	254	—
Increase (decrease) in cash flows from changes in assets and liabilities, net of acquired assets:		
Accounts receivable	11,335	310
Inventories	(22,141)	(25,129)
Accounts payable	(3,420)	7,992
Accrued compensation and benefits	(3,702)	(7,040)
Other assets	(3,042)	2,431
Other liabilities	(4,449)	(4,518)
	16,683	16,074
Net cash provided by operating activities	24,639	38,720
Cash flows from investing activities:		
Purchases of property, plant and equipment	(10,436)	(11,478)
Proceeds from sale of a facility	5,178	—
Payments related to business acquisitions, net of cash acquired	(256,450)	(6,104)
Net cash used in investing activities	(261,708)	(17,582)
Cash flows from financing activities:		
Payments on term loan	(6,564)	—
Proceeds from term loan	175,000	—
Proceeds from revolving line of credit, net	61,654	21,000
Payments related to distribution agreement	(16,667)	(16,667)
Payments related to contingent consideration	(200)	(2,423)
Payments related to debt issuance costs	(5,556)	(1,410)
Dividends paid on common stock	(16,649)	(16,565)
Other, net	400	810
Net cash provided by (used in) financing activities	191,418	(15,255)
Effect of exchange rate changes on cash and cash equivalents	95	(6,889)
Net decrease in cash and cash equivalents	(45,556)	(1,006)
Cash and cash equivalents at beginning of period	72,504	66,332

Cash and cash equivalents at end of period	\$26,948	\$65,326
Non-cash financing activities:		
Dividends payable	\$5,561	\$5,540

See notes to consolidated condensed financial statements.

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CONMED CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited, in thousands except per share amounts)

Note 1 – Operations

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

Note 2 - Interim Financial Information

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. Results for the period ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The consolidated condensed financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2015 included in our Annual Report on Form 10-K.

Note 3 - Business Acquisition

On January 4, 2016, we acquired all of the stock of SurgiQuest, Inc. (“SurgiQuest”) for \$257.7 million in cash (based on an aggregate purchase price of \$265 million as adjusted pursuant to the merger agreement governing the acquisition). SurgiQuest develops, manufactures and markets the AirSeal® System, the first integrated access management technology for use in laparoscopic and robotic procedures. This proprietary and differentiated access system is complementary to our current advanced surgical offering. The acquisition was funded through a combination of cash on hand and long-term borrowings.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as a result of the SurgiQuest acquisition. The assessment of fair value is preliminary and is based on information that was available to management at the time the consolidated condensed financial statements were prepared. Accordingly, the allocation of purchase price is preliminary and therefore subject to adjustment in future periods.

Cash	\$1,305
Other current assets	16,681
Current assets	17,986
Property, plant & equipment	3,332
Goodwill	136,358
Customer and distributor relationships	76,420
Developed technology	49,600
Trademarks & tradenames	4,780
Other non-current assets	302
Total assets acquired	\$288,778
Current liabilities assumed	10,586
Deferred income taxes	20,009
Other long-term liabilities	454

Total liabilities assumed	31,049
Net assets acquired	\$257,729

The goodwill recorded as part of the acquisition primarily represents revenue synergies, as well as operating efficiencies and cost savings. Goodwill deductible for tax purposes is \$11.5 million. The weighted amortization period for intangibles acquired

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is 20 years. Customer and distributor relationships, developed technology and trademarks and tradenames are being amortized over a weighted average life of 22, 17 and 23 years, respectively.

The unaudited pro forma information for the three and nine months ended September 30, 2016 and 2015, assuming SurgiQuest occurred as of January 1, 2015 are presented below. This information has been prepared for comparative purposes only and does not purport to be indicative of the results of operations which actually would have resulted had the SurgiQuest acquisition occurred on the dates indicated, or which may result in the future.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net sales	\$184,792	\$181,045	\$559,426	\$562,935
Net income	9,342	(274)	21,988	(7,939)

These pro forma results include certain adjustments, primarily due to increases in amortization expense due to fair value adjustments of intangible assets, increases in interest expense due to additional borrowings incurred to finance the acquisition, and acquisition related costs including transaction costs such as legal, accounting, valuation and other professional services as well as integration costs such as severance and retention.

Acquisition related costs included in the determination of pro forma net income for the three and nine months ended September 30, 2016 totaled \$3.3 million and \$17.4 million, respectively. Such amounts are excluded from the determination of pro forma net income for the three and nine months ended September 30, 2016.

Net sales associated with SurgiQuest of \$17.3 million and \$48.5 million have been recorded in the consolidated condensed statements of comprehensive income for the three and nine months ended September 30, 2016, respectively. It is impracticable to determine the earnings recorded in the consolidated condensed statements of comprehensive income associated with the SurgiQuest acquisition for the three and nine months ended September 30, 2016 as these amounts are not separately measured.

Note 4 – Comprehensive Income

Comprehensive income consists of the following:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income	\$7,337	\$8,873	\$7,956	\$22,646
Other comprehensive income:				
Pension liability, net of income tax (income tax expense of \$257 and \$298 for the three months ended September 30, 2016 and 2015, respectively, and \$771 and \$896 for the nine months ended September 30, 2016 and 2015, respectively)	438	510	1,314	1,529
Cash flow hedging loss, net of income tax (income tax benefit of \$(483) and (\$212) for the three months ended September 30, 2016 and 2015, respectively, and (\$1,116) and (\$560) for the nine months ended September 30, 2016 and 2015, respectively)	(824)	(361)	(1,904)	(956)

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Foreign currency translation adjustment	950	(5,281)	2,667	(14,563)
Comprehensive income	\$7,901	\$3,741	\$10,033	\$8,656

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Accumulated other comprehensive loss consists of the following:

	Cash Flow Hedging Gain (Loss)	Pension Liability	Cumulative Translation Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2015	\$ 1,201	\$(25,982)	\$(29,113)	\$(53,894)
Other comprehensive income (loss) before reclassifications, net of tax	(1,598)	—	2,667	1,069
Amounts reclassified from accumulated other comprehensive income (loss) before tax ^a	(485)	2,085	—	1,600
Income tax provision (benefit)	179	(771)	—	(592)
Net current-period other comprehensive income (loss)	(1,904)	1,314	2,667	2,077
Balance, September 30, 2016	\$(703)	\$(24,668)	\$(26,446)	\$(51,817)
	Cash Flow Hedging Gain (Loss)	Pension Liability	Cumulative Translation Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2014	\$ 3,276	\$(30,760)	\$(12,338)	\$(39,822)
Other comprehensive income (loss) before reclassifications, net of tax	3,666	—	(14,563)	(10,897)
Amounts reclassified from accumulated other comprehensive income before tax ^a	(7,330)	2,425	—	(4,905)
Income tax provision (benefit)	2,708	(896)	—	1,812
Net current-period other comprehensive income (loss)	(956)	1,529	(14,563)	(13,990)
Balance, September 30, 2015	\$ 2,320	\$(29,231)	\$(26,901)	\$(53,812)

(a) The cash flow hedging gain (loss) and pension liability accumulated other comprehensive income (loss) components are included in sales or cost of sales and as a component of net periodic pension cost, respectively. The amounts recorded in the charts above are for the nine months ended September 30, 2016 and 2015. For the three months ended September 30, 2016, \$0.0 million of the cash flow hedging gain and \$0.7 million of the pension liability were reclassified from accumulated other comprehensive loss to the statement of income. For the three months ended September 30, 2015, \$2.3 million of the cash flow hedging gain and \$0.8 million of the pension liability were reclassified from accumulated other comprehensive loss to the statement of income. Refer to Note 5 and Note 10, respectively, for further details.

Note 5 – Fair Value of Financial Instruments

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

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

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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 September 30, 2016 which have been accounted for as cash flow hedges totaled \$102.3 million. Net realized gains (losses) recognized for forward contracts accounted for as cash flow hedges approximated \$0.0 million and \$2.3 million for the three months ended September 30, 2016 and 2015, respectively, and \$0.5 million and \$7.3 million for the nine months ended September 30, 2016 and 2015, 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 \$0.7 million at September 30, 2016. It is expected these unrealized losses will be recognized in the consolidated condensed statement of comprehensive income in 2016 and 2017.

We also enter into forward contracts to exchange foreign currencies for United States dollars in order to hedge our currency transaction exposures on intercompany receivables denominated in foreign currencies. These forward contracts settle each month at month-end, at which time we enter into new forward contracts. We have not designated these forward contracts as hedges and have not applied hedge accounting to them. The notional contract amounts for forward contracts outstanding at September 30, 2016 which have not been designated as hedges totaled \$18.6 million. Net realized gains (losses) recognized in connection with those forward contracts not accounted for as hedges approximated \$(0.2) million and \$0.9 million for the three months ended September 30, 2016 and 2015, respectively, offsetting gains (losses) on our intercompany receivables of \$0.2 million and \$(0.8) million for the three months ended September 30, 2016 and 2015, respectively. Net realized gains (losses) recognized in connection with those forward contracts not accounted for as hedges approximated \$(0.4) million and \$0.8 million for the nine months ended September 30, 2016 and 2015, respectively, offsetting gains (losses) on our intercompany receivables of \$0.5 million and \$(1.1) million for the nine months ended September 30, 2016 and 2015, respectively. These gains and losses have been recorded in selling and administrative expense in the consolidated condensed statements of comprehensive income.

We record these forward foreign exchange contracts at fair value; the following tables summarize the fair value for forward foreign exchange contracts outstanding at September 30, 2016 and December 31, 2015:

September 30, 2016	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	\$1,670	Other current liabilities	\$(2,784)	\$(1,114)
Derivatives not designated as hedging instruments:					
Foreign exchange contracts	Other current liabilities	—	Other current liabilities	(16)	(16)
Total derivatives		\$1,670		\$(2,800)	\$(1,130)

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December 31, 2015	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	\$2,931	Prepaid expenses and other current assets	\$(1,026)	\$1,905
Derivatives not designated as hedging instruments:					
Foreign exchange contracts	Prepaid expenses and other current assets	4	Prepaid expenses and other current assets	(38)	(34)
Total derivatives		\$2,935		\$(1,064)	\$1,871

Our forward foreign exchange contracts are subject to a master netting agreement and qualify for netting in the consolidated balance sheets. Accordingly, at September 30, 2016 and December 31, 2015, we have recorded the net fair value of \$1.1 million and \$1.9 million, respectively, in other current liabilities and prepaid expenses and other current assets, respectively.

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

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

Valuation Techniques. Assets and liabilities carried at fair value and measured on a recurring basis as of September 30, 2016 consist of forward foreign exchange contracts and contingent liabilities associated with certain acquisitions. The Company values its forward foreign exchange contracts using quoted prices for similar assets. The most significant assumption is quoted currency rates. The value of the forward foreign exchange contract assets and liabilities were determined within Level 2 of the valuation hierarchy and are listed in the table above.

Certain acquisitions involve the potential for the payment of future contingent consideration upon the achievement of certain product development milestones and revenue based payments. Contingent consideration is recorded at the estimated fair value of the contingent milestone and revenue based payments on the acquisition date. The fair value of the contingent consideration is remeasured at the estimated fair value at each reporting period with the change in fair value recognized as income or expense within selling and administrative expenses in the consolidated condensed

statements of comprehensive income. We remeasure the liability on a recurring basis using Level 3 inputs as defined under authoritative guidance for fair value measurements.

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

Note 6 - Inventories

Inventories consist of the following:

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	September 30, 2016	December 31, 2015
Raw materials	\$ 44,810	\$ 47,681
Work-in-process	15,758	13,922
Finished goods	127,960	105,291
Total	\$ 188,528	\$ 166,894

Note 7 – Earnings Per Share

Basic earnings per share (“basic EPS”) is computed by dividing net income by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share (“diluted EPS”) gives effect to all dilutive potential shares outstanding resulting from employee stock options, restricted stock units, performance share units and stock appreciation rights (“SARs”) during the period. The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Net income	\$7,337	\$8,873	\$7,956	\$22,646
Basic – weighted average shares outstanding	27,818	27,701	27,785	27,636
Effect of dilutive potential securities	133	197	161	217
Diluted – weighted average shares outstanding	27,951	27,898	27,946	27,853
Net income (per share)				
Basic	\$0.26	\$0.32	\$0.29	\$0.82
Diluted	0.26	0.32	0.28	0.81

The shares used in the calculation of diluted EPS exclude options and SARs to purchase shares where the exercise price was greater than the average market price of common shares for the period and the effect of the inclusion would be anti-dilutive. Such shares aggregated approximately 1.6 million and 1.4 million in the three and nine months ended September 30, 2016, respectively. Such shares were not material in the three and nine months ended September 30, 2015.

Note 8 – Goodwill and Other Intangible Assets

The changes in the net carrying amount of goodwill for the nine months ended September 30, 2016 are as follows:

Balance as of December 31, 2015	\$	260,651
Goodwill resulting from business acquisitions		136,358

Foreign currency
translation 1,367

Balance as of
September 30, 2016 \$ 398,376

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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. During the nine months ended September 30, 2016, the Company acquired SurgiQuest, Inc. ("SurgiQuest") as further described in Note 3. Goodwill resulting from the acquisition amounted to \$136.4 million and acquired amortizing intangible assets including customer and distributor relationships, developed technology and trademarks and tradenames amounted to \$130.8 million.

Other intangible assets consist of the following:

	September 30, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer and distributor relationships	\$213,324	\$(72,479)	\$136,871	\$(64,423)
Promotional, marketing and distribution rights	149,376	(28,500)	149,376	(24,000)
Patents and other intangible assets	71,736	(44,455)	66,688	(42,885)
Developed technology	49,600	(930)	—	—
Unamortized intangible assets:				
Trademarks and tradenames	86,544	—	86,544	—
	\$570,580	\$(146,364)	\$439,479	\$(131,308)

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

On January 3, 2012, the Company entered into the JDDA with MTF to obtain MTF's worldwide promotion rights with respect to allograft tissues within the field of sports medicine and related products. The initial consideration from the Company included a \$63.0 million up-front payment for the rights and certain assets, with an additional \$84.0 million contingently payable over a four year period depending on MTF meeting supply targets for tissue. On January 6, 2016, January 5, 2015 and January 3, 2014, we paid equal installments of \$16.7 million and on January 3, 2013, we paid \$34.0 million of the additional consideration.

Amortization expense related to intangible assets which are subject to amortization totaled \$5.0 million and \$3.1 million in the three months ended September 30, 2016 and 2015, respectively, and \$15.0 million and \$9.5 million in the nine months ended September 30, 2016 and 2015, respectively, and is included as a reduction of revenue (for amortization related to our promotional, marketing and distribution rights) and in selling and administrative expense (for all other intangible assets) in the consolidated condensed statements of comprehensive income. The weighted average amortization period for intangible assets which are amortized is 25 years. Customer and distributor relationships are being amortized over a weighted average life of 22 years. SurgiQuest customer and distributor

relationships are being amortized over a weighted average life of 22 years. Promotional, marketing and distribution rights are being amortized over a weighted average life of 25 years. Patents and other intangible assets are being amortized over a weighted average life of 13 years. Included in patents and other intangible assets at September 30, 2016 is an in-process research and development asset related to the EndoDynamix, Inc. acquisition that is not currently amortized. Developed technology is being amortized over a weighted average life of 17 years.

The estimated intangible asset amortization expense remaining for the year ending December 31, 2016 and for each of the five succeeding years is as follows:

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	Amortization included in expense	Amortization recorded as a reduction of revenue	Total
Remaining, 2016	\$ 3,479	\$ 1,500	\$4,979
2017	15,408	6,000	21,408
2018	15,742	6,000	21,742
2019	15,597	6,000	21,597
2020	15,548	6,000	21,548
2021	14,000	6,000	20,000

Note 9 – Guarantees

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

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

	2016	2015
Balance as of January 1,	\$2,509	\$2,286
Provision for warranties	2,380	2,850
Claims made	(2,653)	(2,682)
Balance as of September 30,	\$2,236	\$2,454

Note 10 – Pension Plan

Net periodic pension cost consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Service cost	\$113	\$60	\$339	\$180
Interest cost on projected benefit obligation	719	849	2,158	2,546
Expected return on plan assets	(1,297)	(1,424)	(3,892)	(4,273)
Net amortization and deferral	695	808	2,085	2,425

Net periodic pension cost	\$230	\$293	\$690	\$878
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We do not expect to make any pension contributions during 2016.

Note 11 – Acquisition, Restructuring and Other Expense

Acquisition, restructuring and other expense consists of the following:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Facility consolidation costs	\$—	\$1,316	\$991	\$5,179
Termination of a product offering	—	—	4,546	—
Restructuring costs included in cost of sales	\$—	\$1,316	\$5,537	\$5,179
Restructuring costs	\$361	\$1,331	\$4,105	\$9,795
Business acquisition costs	3,314	—	17,355	—
Gain on sale of facility	(1,890)	—	(1,890)	—
Acquisition, restructuring and other expense included in selling and administrative expense	\$1,785	\$1,331	\$19,570	\$9,795
Debt refinancing costs included in other expense	\$—	\$—	\$2,942	\$—

During the three and nine months ended September 30, 2016, we incurred \$3.3 million and \$17.4 million, respectively, in costs associated with the January 4, 2016 acquisition of SurgiQuest, Inc. as further described in Note 3. These costs include investment banking fees, consulting fees, legal fees and integration related costs.

During the nine months ended September 30, 2016, we incurred a \$2.7 million charge related to an agreement between the Company and JP Morgan Chase Bank, N.A. and recorded a loss on the early extinguishment of debt of \$0.3 million in conjunction with the fifth amended and restated senior credit agreement as further described in Note 15.

During 2016 and 2015, we continued our operational restructuring plan. The consolidation of our Centennial, Colorado manufacturing operations into other existing CONMED manufacturing facilities is complete. We incurred \$0.0 million and \$1.3 million in costs associated with the operational restructuring during the three months ended September 30, 2016 and 2015, respectively, and \$1.0 million and \$5.2 million during the nine months ended September 30, 2016 and 2015, respectively. These costs were charged to cost of sales and include severance and other charges associated with the consolidation.

During 2016, the Company discontinued our Altrus product offering as part of our ongoing restructuring and incurred \$4.5 million in non-cash charges primarily related to inventory which were included in cost of sales for the nine months ended September 30, 2016.

During 2016 and 2015, we restructured certain selling and administrative functions and incurred severance and other related costs in the amount of \$0.4 million and \$1.3 million for the three months ended September 30, 2016 and 2015, respectively, and \$4.1 million and \$9.8 million for the nine months ended September 30, 2016 and 2015, respectively.

During the three and nine months ended September 30, 2016, we sold our Centennial, Colorado facility. We received net cash proceeds of \$5.2 million and recorded a gain of \$1.9 million on the sale of our facility in Centennial, Colorado.

We have recorded an accrual in current and other long term liabilities of \$1.8 million at September 30, 2016 mainly related to severance costs associated with the restructuring. Below is a roll forward of the costs incurred and cash expenditures associated with these activities during the nine months ended September 30, 2016 and 2015:

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	2016	2015
Balance as of January 1,	\$7,175	\$8,254
Expenses incurred	5,096	14,974
Payments made	(10,447)	(18,041)
Balance at September 30,	\$1,824	\$5,187

Note 12 — Business Segments

We are accounting and reporting for our business as a single operating segment entity engaged in the development, manufacturing and sale on a global basis of surgical devices and related equipment. Our chief operating decision maker (the CEO) evaluates the various global product portfolios on a net sales basis and evaluates profitability, investment and cash flow metrics on a consolidated worldwide basis due to shared infrastructure and resources. Our product lines consist of orthopedic surgery, general surgery and surgical visualization. Orthopedic surgery consists of sports medicine instrumentation and small bone, large bone and specialty powered surgical instruments and service fees related to the promotion and marketing of sports medicine allograft tissue. General surgery consists of a complete line of endo-mechanical instrumentation for minimally invasive laparoscopic and gastrointestinal procedures, a line of cardiac monitoring products as well as electrosurgical generators and related instruments. Surgical visualization consists of imaging systems for use in minimally invasive orthopedic and general surgery procedures including 2DHD and 3DHD vision technologies. These product lines' net sales are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Orthopedic surgery	\$86,262	\$89,382	\$272,445	\$284,781
General surgery	85,439	66,123	248,908	203,295
Surgical visualization	13,091	13,679	38,073	40,075
Consolidated net sales	\$184,792	\$169,184	\$559,426	\$528,151

Note 13 – Legal Proceedings

From time to time, we are subject to claims alleging product liability, patent infringement or other claims incurred in the ordinary course of business. These may involve our United States or foreign operations, or sales by foreign distributors. Likewise, from time to time, the Company may receive an information request or subpoena from a government agency such as the Securities and Exchange Commission, Department of Justice, 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 information requests or subpoenas may or may not be routine inquiries, or may begin as routine inquiries and over time develop into enforcement actions of various types. The product liability claims are generally covered by various insurance policies, subject to certain deductible amounts, maximum policy limits and certain exclusions in the respective policies or as required as a matter of law. In some cases, we may be entitled to indemnification by third parties. We establish reserves sufficient to cover probable losses associated with any such pending 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 financial 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

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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.

During the third quarter of 2013, the U.S. Food and Drug Administration ("FDA") inspected our Centennial, Colorado manufacturing facility and issued a Form 483 with observations on September 20, 2013. We subsequently submitted responses to the Observations, and the FDA issued a warning letter on January 30, 2014 relating to the inspection and the responses to the Form 483 observations. Accordingly, we undertook corrective actions. During the fourth quarter of 2014, the FDA again inspected our Centennial, Colorado manufacturing facility and, on November 18, 2014, issued a Form 483 with eight observations, three of which the FDA characterized as repeat observations. On December 10, 2014, we responded to the Form 483 observations. We received some additional questions from the FDA and responded to these questions on April 25, 2015. On August 1, 2016, we received notification from the FDA that the warning letter was closed. The costs of remediation relating to the January 30, 2014 warning letter were not material to our consolidated results of operations. We may have future inspections at other sites and there can be no assurance that the costs of responding to such inspections will not be material.

In September 2013, Lexion Medical ("Lexion") filed suit against SurgiQuest in federal court in the District of Minnesota alleging false advertising under the Lanham Act, as well as various state law claims, including common law trade libel and unfair competition. In March 2014, SurgiQuest's motion to dismiss for lack of personal jurisdiction was granted and that same day, SurgiQuest filed suit against Lexion in federal court in the District of Delaware seeking, among other claims, a declaratory judgment that SurgiQuest's actions did not violate the Lanham Act. Lexion filed an answer generally denying SurgiQuest's claims, and asserted counterclaims that were substantially similar to the claims Lexion brought in the Minnesota action. On January 4, 2016, SurgiQuest became a subsidiary of CONMED as further described in Note 3, and CONMED assumed the costs and liabilities related to the Lexion lawsuit subject to the terms of the merger agreement referenced in Note 3. The case is in the discovery phase with trial anticipated in 2017. Based on recently produced expert's reports, Lexion is seeking damages of \$14.8 million for alleged lost profits and \$18.7 million for costs related to alleged "corrective advertising" as well as an unspecified sum for disgorgement of SurgiQuest's alleged profit. We believe that there is no merit to Lexion's claims against SurgiQuest and intend to vigorously defend the claims asserted by Lexion.

Note 14 – New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers". This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. In March, April and May 2016, the FASB issued ASU 2016-08 related to principal versus agent considerations; ASU 2016-10 related to identifying performance

obligations and licensing; and ASU 2016-12 clarifying the guidance on assessing collectability, presenting sales taxes, measuring noncash consideration, and certain transition matters, respectively. These additional ASUs provide supplemental adoption guidance and clarification to ASU 2014-09. The guidance in these ASUs is effective for annual reporting periods beginning after December 15, 2017 and early adoption is permitted as of January 1, 2017. We plan to adopt these ASUs on January 1, 2018. The new standard will become effective beginning with the first quarter of 2018 and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. The Company is currently evaluating both the impact of adopting this new guidance on the consolidated financial statements and the method of adoption.

In August 2014, the FASB issued ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU establishes specific guidance to an organization's management on their responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern. The provisions of this ASU are effective for annual periods ending after December 15, 2016, and interim periods thereafter. This ASU is not expected to have an impact on our financial statements or disclosures.

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In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory". An entity should measure inventory within the scope of this Update at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. This ASU is effective for annual periods beginning after December 15, 2016. The Company does not believe this new guidance will have a material impact on the consolidated financial statements.

In August 2015, the FASB issued ASU No. 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements". This ASU was issued to clarify the guidance included in ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs", which requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within Update 2015-03 for debt issuance costs related to line-of-credit arrangements, ASU 2015-15 was issued to clarify that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company adopted this guidance as of January 1, 2016, continuing to account for debt issuance costs related to the line-of-credit arrangement as an asset, and it did not have a material impact on our consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments". This ASU simplifies the accounting for changes in measurement period adjustments associated with a business combination. It requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This ASU is effective for annual periods beginning after December 15, 2015. The Company adopted this guidance as of January 1, 2016 and it did not have a material impact on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17 "Income Taxes (ASC 740): Balance Sheet Classification of Deferred Taxes". This ASU requires all deferred income tax assets and liabilities be presented as non-current in classified balance sheets. This can be applied prospectively or retrospectively and we must disclose the reason for the change in accounting principle, the application applied and if applied retrospectively, include quantitative information about the effects of the change on prior periods. This standard is effective for annual and interim periods beginning after December 15, 2016. The Company retrospectively implemented this new guidance in the first quarter of 2016. The table below summarizes the adjustments made to conform prior period classification with the new guidance:

	December 31, 2015		
	As	Previously Reclass	As
	Filed	Filed	Adjusted
Current deferred income tax assets	\$14,150	\$(14,150)	\$—
Long-term deferred income tax assets	1,332	2,906	4,238
Long-term deferred income tax liabilities	(114,623)	11,244	(103,379)
	\$(99,141)	\$—	\$(99,141)

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). This requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The new standard is

effective for interim and annual periods beginning after December 15, 2018 and early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-02.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. This ASU requires all tax effects to run through the statement of operations, where historically tax benefits in excess of compensation cost ran through equity. It also allows employers to withhold the maximum amount of individual tax withholdings without resulting in liability accounting. Finally, the ASU allows companies to make an accounting policy election regarding the impact of forfeitures on expense related to share based awards. This new guidance is effective for periods beginning after December 15, 2016, however

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early adoption is permitted. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the FASB Emerging Issues Task Force). This ASU provides amendments to specific statement of cash flows classification issues. This new guidance is effective for periods beginning after December 15, 2017, however early adoption is permitted. The Company does not believe this new guidance will have a material impact on the consolidated financial statements.

Note 15 - Long Term Debt

Long term debt consists of the following:

	September 30, 2016	December 31, 2015
Revolving line of credit	\$ 328,000	\$ 265,609
Term loan, net of deferred debt issuance costs of \$661 and \$0 in 2016 and 2015, respectively	167,776	—
Mortgage notes	4,545	5,201
Total debt	500,321	270,810
Less: Current portion	10,145	1,339
Total long-term debt	\$ 490,176	\$ 269,471

On January 4, 2016 we entered into an amended and restated senior credit agreement (the "fifth amended and restated senior credit agreement") consisting of: (a) a \$175.0 million term loan facility and (b) a \$525.0 million revolving credit facility both expiring on January 4, 2021. The term loan is payable in quarterly installments increasing over the term of the facility. Proceeds from the term loan facility and borrowings under the revolving credit facility were used to repay the then existing senior credit agreement and to finance the acquisition of SurgiQuest. Initially, the interest rates are at LIBOR plus a base rate or a Eurocurrency rate plus an applicable margin. The applicable margin for base rate loans is 1.00% and for Eurocurrency rate loans is 2.00% (2.53% at September 30, 2016). In conjunction with this agreement, we incurred charges included in other expense in the statements of comprehensive income related to an agreement between the Company and JP Morgan Chase Bank, N.A. totaling \$2.7 million and recorded a loss on the early extinguishment of debt of \$0.3 million.

There were \$168.4 million in borrowings outstanding on the term loan as of September 30, 2016. There were \$328.0 million in borrowings outstanding under the revolving credit facility as of September 30, 2016. Our available borrowings on the revolving credit facility at September 30, 2016 were \$192.2 million with approximately \$4.8 million of the facility set aside for outstanding letters of credit.

The amended and restated senior credit agreement is collateralized by substantially all of our personal property and assets. The amended and restated senior credit agreement contains covenants and restrictions which, among other things, require the maintenance of certain financial ratios and restrict dividend payments and the incurrence of certain indebtedness and other activities, including acquisitions and dispositions. We were in full compliance with these covenants and restrictions as of September 30, 2016. 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 Largo, Florida property and facilities bearing interest at 8.25% per annum with semiannual payments of principal and interest through June 2019. The principal balance outstanding on the mortgage note aggregated \$4.5 million at September 30, 2016. The mortgage note is collateralized

by the Largo, Florida property and facilities.

The scheduled maturities of long-term debt outstanding at September 30, 2016 are as follows: