

CONMED CORP  
Form 10-Q  
August 03, 2010

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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 quarterly period ended  
June 30, 2010

Commission File Number  
0-16093

CONMED CORPORATION

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

New York

(State or other jurisdiction of  
incorporation or organization)

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)

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).

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

Large accelerated filer  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 July 29, 2010 is 28,792,753 shares.

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CONMED CORPORATION  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTER ENDED JUNE 30, 2010

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PART I FINANCIAL INFORMATION  
Item 1.

CONMED CORPORATION  
CONSOLIDATED CONDENSED STATEMENTS OF INCOME  
(Unaudited, in thousands except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2010	2009	2010
Net sales	\$ 164,569	\$ 181,086	\$ 328,631	\$ 357,451
Cost of sales	87,257	87,403	174,967	171,973
Gross profit	77,312	93,683	153,664	185,478
Selling and administrative expense	64,147	71,494	126,000	142,046
Research and development expense	7,396	6,441	15,885	14,123
Other expense (income)	734	970	(602 )	970
	72,277	78,905	141,283	157,139
Income from operations	5,035	14,778	12,381	28,339
Gain (loss) on early extinguishment of debt	-	(79 )	1,083	(79 )
Amortization of debt discount	1,013	1,056	2,058	2,108
Interest expense	1,767	1,771	3,255	3,520
Income before income taxes	2,255	11,872	8,151	22,632
Provision for income taxes	846	4,566	2,257	8,007
Net income	\$ 1,409	\$ 7,306	\$ 5,894	\$ 14,625
Per share data:				
Net Income				
Basic	\$ .05	\$ .25	\$ .20	\$ .50
Diluted	.05	.25	.20	.50
Weighted average common shares				
Basic	29,056	29,100	29,043	29,125
Diluted	29,082	29,295	29,071	29,342

See notes to consolidated condensed financial statements.

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

	December 31, 2009	June 30, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$10,098	\$8,490
Accounts receivable, net	126,162	142,801
Inventories	164,275	170,816
Deferred income taxes	14,782	13,764
Prepaid expenses and other current assets	10,293	13,125
Total current assets	325,610	348,996
Property, plant and equipment, net	143,502	142,070
Deferred income taxes	1,953	2,002
Goodwill	290,505	295,111
Other intangible assets, net	190,849	192,971
Other assets	5,994	5,595
Total assets	\$958,413	\$986,745
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$2,174	\$33,208
Accounts payable	26,210	30,501
Accrued compensation and benefits	25,955	25,595
Income taxes payable	677	603
Other current liabilities	24,091	16,825
Total current liabilities	79,107	106,732
Long-term debt	182,195	170,366
Deferred income taxes	97,916	107,091
Other long-term liabilities	22,680	24,164
Total liabilities	381,898	408,353
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; 31,299,203 shares issued in 2009 and 2010, respectively	313	313
Paid-in capital	317,366	317,409
Retained earnings	325,370	339,362
Accumulated other comprehensive loss	(12,405 )	(17,881 )
Less: 2,149,832 and 2,513,751 shares of common stock in treasury, at cost in 2009 and 2010, respectively	(54,129 )	(60,811 )
Total shareholders' equity	576,515	578,392
Total liabilities and shareholders' equity	\$958,413	\$986,745

See notes to consolidated condensed financial statements.

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

	2009	Six months ended June 30, 2010
Cash flows from operating activities:		
Net income	\$ 5,894	\$ 14,625
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	8,281	8,449
Amortization of debt discount	2,058	2,108
Amortization, all other	9,100	10,024
Stock-based compensation expense	2,090	2,082
Deferred income taxes	3,129	7,239
(Gain) loss on early extinguishment of debt	(1,083 )	79
Sale of accounts receivable to (collections on behalf of) purchaser (Note 13)	(3,000 )	(29,000 )
Increase (decrease) in cash flows from changes in assets and liabilities:		
Accounts receivable	7,999	8,718
Inventories	(4,319 )	(16,167 )
Accounts payable	(7,774 )	6,100
Income taxes payable	(1,901 )	(125 )
Accrued compensation and benefits	(2,996 )	90
Other assets	(830 )	(2,884 )
Other liabilities	(2,661 )	(5,815 )
	8,093	(9,102 )
Net cash provided by operating activities	13,987	5,523
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(12,032 )	(7,163 )
Payments related to business acquisitions	(188 )	(5,157 )
Net cash used in investing activities	(12,220 )	(12,320 )
Cash flows from financing activities:		
Net proceeds from common stock issued under employee plans	238	789
Repurchase of treasury stock	-	(9,471 )
Payments on senior credit agreement	(675 )	(10,675 )
Proceeds of senior credit agreement	9,000	-
Payments on mortgage notes	(1,036 )	(404 )
Proceeds from secured borrowings, net (Note 13)	-	31,000
Payments on senior subordinated notes	(7,808 )	(2,933 )
Net change in cash overdrafts	(1,579 )	(2,068 )
Net cash provided by (used in) financing activities	(1,860 )	6,238
Effect of exchange rate changes on cash and cash equivalents	(1,039 )	(1,049 )
Net decrease in cash and cash equivalents	(1,132 )	(1,608 )



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Cash and cash equivalents at beginning of period	11,811	10,098
Cash and cash equivalents at end of period	\$ 10,679	\$ 8,490

See notes to consolidated condensed financial statements.

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

Note 1 – Operations

CONMED Corporation (“CONMED”, the “Company”, “we” or “us”) is a medical technology company with an emphasis on surgical devices and equipment for minimally invasive procedures and monitoring. The Company’s products serve the clinical areas of arthroscopy, powered surgical instruments, electrosurgery, cardiac monitoring disposables, endosurgery and endoscopic technologies. They 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 June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

The consolidated condensed financial statements and notes thereto should be read in conjunction with the financial statements and notes for the year-ended December 31, 2009 included in our Annual Report on Form 10-K.

Note 3 – Other comprehensive income

Comprehensive income consists of the following:

	Three months ended		Six months ended	
	June 30, 2009	2010	June 30, 2009	2010
Net income	\$ 1,409	\$ 7,306	\$ 5,894	\$ 14,625
Other comprehensive income:				
Pension liability, net of income tax	198	207	12,547	414
Cash flow hedging gain, net of income tax	-	858	-	1,464
Foreign currency translation adjustment	6,459	(5,786 )	3,063	(7,354 )
Comprehensive income	\$ 8,066	\$ 2,585	\$ 21,504	\$ 9,149

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

	Cash Flow Hedging Gain	Pension Liability	Cumulative Translation Adjustments	Accumulated Other Comprehensive Income (loss)
Balance, December 31, 2009	\$ 76	\$ (16,282 )	\$ 3,801	\$ (12,405 )
Pension liability, net of income tax	-	414	-	414
Cash flow hedging gain, net of income tax	1,464	-	-	1,464
Foreign currency translation adjustments	-	-	(7,354 )	(7,354 )
Balance, June 30, 2010	\$ 1,540	\$ (15,868 )	\$ (3,553 )	\$ (17,881 )

#### Note 4 – Fair Value of Financial Instruments

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

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

**Foreign Currency Forward Contracts.** We hedge 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 when the forecasted transaction occurs. The notional contract amounts for forward contracts outstanding at June 30, 2010 which have been accounted for as cash flow hedges totaled \$32.3 million. Net realized gains recognized for forward contracts accounted for as cash flow hedges approximated \$1.3 million and \$2.2 million for the three and six months ended June 30, 2010, respectively. Net unrealized gains on forward contracts outstanding which have been accounted for as cash flow hedges and which have been included in other comprehensive income (loss) totaled \$1.5 million at June 30, 2010. It is expected these unrealized gains will be recognized in income in 2010 and 2011.

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 June 30, 2010 which have not been designated as hedges totaled \$30.2 million. Net realized gains recognized in connection with those forward contracts not accounted for as hedges approximated \$1.0 million and \$1.3 million for the three and six months ended June 30, 2010, offsetting losses on our intercompany receivables of \$0.1 million and \$0.8 million for the three and six months ended June 30, 2010, respectively. These gains and losses have been recorded in selling and administrative expense in the consolidated statements of 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 June 30, 2010:

	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	\$ 2,495	Prepaid Expenses and other current assets	\$(53 )	\$ 2,442
Derivatives not designated as hedging instruments:					
Foreign Exchange Contracts	Prepaid Expenses and other current assets	-	Prepaid Expenses and other current assets	\$(59 )	\$(59 )
Total derivatives		\$2,495		\$(112 )	\$2,383

Our forward foreign exchange contracts are subject to a master netting agreement and qualify for netting in the consolidated balance sheets. Accordingly, we have recorded the net fair value of \$2.4 million in prepaid expenses and other current assets.

**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.

As of June 30, 2010, we do not have any significant non-recurring measurements of nonfinancial assets and nonfinancial liabilities.

**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. Liabilities carried at fair value and measured on a recurring basis as of June 30, 2010 consist of forward foreign exchange contracts and two embedded derivatives associated with our 2.50% convertible senior subordinated notes (the “Notes”). The value of the forward foreign exchange contract liabilities was determined within Level 2 of the valuation hierarchy and is listed in the table above. The value of the two embedded derivatives associated with the Notes was determined within Level 2 of the valuation hierarchy and was not material either individually or in the aggregate to our financial position, results of operations or cash flows.

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 \$108.3 million and \$108.9 million at December 31, 2009 and June 30, 2010, respectively, based on their quoted market price. The carrying value of the Notes approximated \$115.1 million and \$112.1 million at December 31, 2009 and June 30, 2010, respectively. During the quarter ended June 30, 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.

#### Note 5 - Inventories

Inventories consist of the following:

	December 31, 2009	June 30, 2010
Raw materials	\$ 48,959	\$ 48,662
Work-in-process	17,203	18,027
Finished goods	98,113	104,127
Total	\$ 164,275	\$ 170,816

#### Note 6 – Earnings per share

Basic earnings per share (“basic EPS”) is computed by dividing net income by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share (“diluted EPS”) gives effect to all dilutive potential shares outstanding resulting from employee stock options, restricted stock units 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 six months ended June 30, 2009 and 2010.

	Three months ended June 30,		Six months ended June 30,	
	2009	2010	2009	2010
Net income	\$ 1,409	\$ 7,306	\$ 5,894	\$ 14,625
Basic – weighted average shares outstanding	29,056	29,100	29,043	29,125
Effect of dilutive potential securities	26	195	28	217
Diluted – weighted average shares outstanding	29,082	29,295	29,071	29,342

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Net Income				
Basic	\$ .05	\$ .25	\$ .20	\$ .50
Diluted	.05	.25	.20	.50

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The shares used in the calculation of diluted EPS exclude options and SARs to purchase shares where the exercise price was greater than the average market price of common shares for the period. Shares excluded from the calculation of diluted EPS aggregated 2.5 million for both the three and six months ended June 30, 2009, respectively. Shares excluded from the calculation of diluted EPS aggregated 1.5 million and 1.4 million for the three and six months ended June 30, 2010, respectively. The shares used in the calculation of diluted EPS also exclude potential shares issuable under the Notes. Upon conversion of the Notes, the holder of each Note will receive the conversion value of the Note payable in cash up to the principal amount of the Note and CONMED common stock for the Note's conversion value in excess of such principal amount. As of June 30, 2010, our share price has not exceeded the conversion price of the Notes, therefore the conversion value was less than the principal amount of the Notes. Accordingly, under the net share settlement method, there were no potential shares issuable under the Notes to be used in the calculation of diluted EPS. The maximum number of shares we may issue with respect to the Notes is 5,750,000.

#### Note 7 – Goodwill and other intangible assets

The changes in the net carrying amount of goodwill for the six months ended June 30, 2010 are as follows:

Balance as of January 1, 2010	\$290,505
Adjustments to goodwill resulting from business acquisitions finalized	4,243
Foreign currency translation	363
Balance as of June 30, 2010	\$295,111

Total accumulated impairment losses (associated with our CONMED Endoscopic Technologies operating unit) aggregated \$46,689 at December 31, 2009 and June 30, 2010.

Goodwill associated with each of our principal operating units is as follows:

	December 31, 2009	June 30, 2010
CONMED Electrosurgery	\$ 16,645	\$ 16,645
CONMED Endosurgery	42,439	42,439
CONMED Linvatec	171,397	175,860
CONMED Patient Care	60,024	60,167
Balance	\$ 290,505	\$ 295,111



Other intangible assets consist of the following:

	December 31, 2009		June 30, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	\$127,594	\$ (36,490 )	\$127,594	\$ (38,638 )
Patents and other intangible assets	41,809	(30,408 )	46,982	(31,311 )
Unamortized intangible assets:				
Trademarks and tradenames	88,344	-	88,344	-
	\$257,747	\$ (66,898 )	\$262,920	\$ (69,949 )

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 25 years. Customer relationships are being amortized over a weighted average life of 32 years. Patents and other intangible assets are being amortized over a weighted average life of 15 years.

Amortization expense related to intangible assets which are subject to amortization totaled \$1,550 and \$3,103 in the three and six months ended June 30, 2009, respectively, and \$1,528 and \$3,051 in the three and six months ended June 30, 2010, respectively, and is included in selling and administrative expense on the consolidated condensed statements of income.

The estimated amortization expense for the year ending December 31, 2010, including the six month period ended June 30, 2010 and for each of the five succeeding years is as follows:

2010	6,113
2011	5,862
2012	5,862
2013	5,633
2014	5,044
2015	4,568

#### Note 8 — Guarantees

We provide warranties on certain of our products at the time of sale. The standard warranty period for our capital and reusable equipment is generally one

year. Liability under service and warranty policies is based upon a review of historical warranty and service claim experience. Adjustments are made to accruals as claim data and historical experience warrant.

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

	2009	2010
Balance as of January 1,	\$ 3,341	\$ 3,383
Provision for warranties	1,709	1,669
Claims made	(1,733 )	(1,740 )
Balance as of June 30,	\$ 3,317	\$ 3,312

#### Note 9 – Pension plan

Net periodic pension costs consist of the following:

	Three months ended June 30,		Six months ended June 30,	
	2009	2010	2009	2010
Service cost	\$ 46	\$ 44	\$ 1,793	\$ 88
Interest cost on projected benefit obligation	927	1,006	2,066	2,012
Expected return on plan assets	(939 )	(1,003 )	(1,938 )	(2,007 )
Net amortization and deferral	314	328	913	657
Curtailment gain	-	-	(4,368 )	-
Net periodic pension cost (gain)	\$ 348	\$ 375	\$ (1,534 )	\$ 750

During the first quarter of 2009, the Company announced the freezing of benefit accruals under the defined benefit pension plan for United States employees (“the Plan”) effective May 14, 2009. As a result, the Company recorded a net pension gain in the first quarter of 2009 of \$1.9 million including a curtailment gain of \$4.4 million and a reduction in accrued pension of \$11.4 million which is included in other long term liabilities.

We are required and expect to make \$3.0 million in contributions to our pension plan in 2010. We contributed \$0.6 million during the second quarter of 2010.

#### Note 10 – Other expense (income)

Other expense (income) consists of the following:



	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2010	2009	2010
New plant/facility consolidation costs	\$ 734	\$ -	\$ 1,280	\$ -
Net pension gain	-	-	(1,882 )	-
CONMED Linvatec consolidation costs	-	970	-	970
Other expense (income)	\$ 734	\$ 970	\$ (602 )	\$ 970

During the six months ended June 30, 2009 we incurred \$7.9 million in restructuring costs of which \$1.3 million (including \$0.7 million in the second quarter of 2009) have been recorded in other expense (income) and include charges related to the consolidation of our distribution centers. The remaining \$6.6 million (including \$3.7 million in the second quarter of 2009) in restructuring costs have been charged to cost of goods sold and represent startup activities associated with a new manufacturing facility in Chihuahua, Mexico and the closure of two Utica, New York area manufacturing facilities.

During the first quarter of 2009, we elected to freeze benefit accruals under the defined benefit pension plan for United States employees, effective May 14, 2009. As a result, we recorded a net pension gain of \$1.9 million associated with the elimination of future benefit accruals under the pension plan (see Note 9).

During the second quarter of 2010, we incurred \$1.0 million in restructuring costs associated with the consolidation of administrative functions in our CONMED Linvatec division.

#### Note 11 — Business Segments and Geographic Areas

CONMED conducts its business through five principal operating units, 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 units also have similar economic characteristics and therefore qualify for aggregation. Our CONMED Patient Care and CONMED Endoscopic Technologies operating units do not qualify 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 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 in the digestive tract.

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



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	Three months ended		Six months ended	
	2009	June 30, 2010	2009	June 30, 2010
Arthroscopy	61,629	74,821	125,456	147,075
Powered Surgical Instruments	33,446	35,769	66,274	70,758
CONMED Linvatec	95,075	110,590	191,730	217,833
CONMED Electrosurgery	22,689	23,965	45,069	47,048
CONMED Endosurgery	17,324	17,143	31,850	34,223
CONMED Linvatec, Endosurgery, and Electrosurgery	135,088	151,698	268,649	299,104
CONMED Patient Care	16,971	17,461	35,436	34,620
CONMED Endoscopic Technologies	12,510	11,927	24,546	23,727
Total	\$ 164,569	\$ 181,086	\$ 328,631	\$ 357,451

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 and income before income taxes:

	Three months ended		Six months ended	
	2009	June 30, 2010	2009	June 30, 2010
CONMED Endosurgery, Electrosurgery and Linvatec	\$ 14,751	\$ 21,271	\$ 27,262	\$ 38,527
CONMED Patient Care	(1,182 )	1,200	(1,622 )	1,546
CONMED Endoscopic Technologies	(1,381 )	(237 )	(3,223 )	(38 )
Corporate	(7,153 )	(7,456 )	(10,036 )	(11,696 )
Income from Operations	5,035	14,778	12,381	28,339
Gain (loss) on early extinguishment of debt	-	(79 )	1,083	(79 )
Amortization of debt discount	1,013	1,056	2,058	2,108
Interest expense	1,767	1,771	3,255	3,520
Income before income taxes	\$ 2,255	\$ 11,872	\$ 8,151	\$ 22,632

Note 12 – Legal proceedings

From time to time, we are a defendant in certain lawsuits alleging product liability, patent infringement, or other claims incurred in the ordinary course of business. Likewise, from time to time, the Company may receive a subpoena from a government agency such as the Equal Employment Opportunity Commission, Occupational Safety and Health Administration, the Department of Labor, the Treasury Department, and other federal and state agencies or foreign governments or government agencies. These subpoena 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 obligation 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 are 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.

On April 7, 2006, CONMED received a copy of a complaint filed in the United States District for the Northern District of New York on behalf of a purported class of former CONMED Linvatec sales representatives. The complaint alleged that the former sales representatives were entitled to, but did not receive, severance in 2003 when CONMED Linvatec restructured its distribution channels. By Memorandum and Decision and Order dated June 22, 2010, the Court granted the Company's motions to decertify the class and for summary judgment. The period for filing an appeal has expired with the Plaintiffs not having filed any appeal, and the litigation has now concluded.

#### Note 13 – New accounting pronouncements

In June 2009, the FASB issued guidance which requires additional disclosures about the transfer and derecognition of financial assets, eliminates the concept of qualifying special-purpose entities, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor's interest in transferred financial assets. Our accounts receivable sales agreement under which a wholly-owned, bankruptcy-remote, special purpose subsidiary of CONMED Corporation sells an undivided percentage ownership interest in receivables to a bank is no longer permitted to be accounted for as a sale and reduction in accounts receivable. We adopted this guidance effective January 1, 2010 and as a result, accounts receivable sold under the agreement (\$31.0 million at June 30, 2010) have been recorded as additional borrowings rather than as a reduction in accounts receivable.



Note 14 – Restructuring

During the first quarter of 2010, we began the second phase of our operational restructuring plan which includes the transfer of additional production lines from Utica, New York to our manufacturing facility in Chihuahua, Mexico.

As of June 30, 2010, we have incurred \$1.6 million in costs associated with the restructuring. These costs were charged to cost of goods sold and include severance and other charges associated with the transfer of production to Mexico.

We estimate the total cost of the second phase of our restructuring plan will approximate \$3.0 million during 2010, including \$1.5 million related to employee termination costs and \$1.5 million in other restructuring related activities. We expect to include these restructuring costs in cost of goods sold. The second phase of the restructuring plan impacts Corporate manufacturing facilities which support multiple reporting segments. As a result, costs associated with the second phase of our restructuring plan will be reflected in the Corporate line within our business segment reporting.

During the second quarter of 2010, we incurred \$1.0 million in restructuring costs associated with the consolidation of administrative functions in our CONMED Linvatec division.

Note 15 – Business Acquisition

During the first quarter of 2010, the Company acquired the stock of a business for a cash purchase price of \$5.0 million. The fair value of this acquisition included assets of \$5.0 million related to in-process research and development and \$4.1 million in goodwill, and liabilities of \$2.4 million related to contingent consideration and \$1.7 million in deferred income tax liabilities. The in-process research and development and goodwill associated with the acquisition are not deductible for income tax purposes.

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

### Forward-Looking Statements

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

### Forward-Looking Statements are not Guarantees of Future Performance

Forward-looking statements involve known and unknown risks, uncertainties and other factors, including those that may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include those identified under "Risk Factors" in our Annual Report on Form 10-K for the year-ended December 31, 2009 and the following, among others:

- general economic and business conditions;
- changes in foreign exchange and interest rates;
- cyclical customer purchasing patterns due to budgetary and other constraints;
  - changes in customer preferences;
  - competition;
  - changes in technology;
- the introduction and acceptance of new products;
- the ability to evaluate, finance and integrate acquired businesses, products and companies;
  - changes in business strategy;
  - the availability and cost of materials;
- the possibility that United States or foreign regulatory and/or administrative agencies may initiate enforcement actions against us or our distributors;
  - future levels of indebtedness and capital spending;
- quality of our management and business abilities and the judgment of our personnel;
  - the availability, terms and deployment of capital;
- the risk of litigation, especially patent litigation as well as the cost associated with patent and other litigation; and

- changes in regulatory requirements.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” below and “Risk Factors” and “Business” in our Annual Report on Form 10-K for the year-ended December 31, 2009 for a further discussion of these factors. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

## Overview:

CONMED Corporation (“CONMED”, the “Company”, “we” or “us”) is a medical technology company with six principal product lines. These product lines and the percentage of consolidated revenues associated with each, are as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2010	2009	2010
Arthroscopy	37.4	% 41.3	% 38.2	% 41.1
Powered Surgical Instruments	20.4	19.8	20.1	19.8
Electrosurgery	13.8	13.2	13.7	13.2
Endosurgery	10.5	9.5	9.7	9.6
Patient Care	10.3	9.6	10.8	9.7
Endoscopic Technologies	7.6	6.6	7.5	6.6
Consolidated Net Sales	100.0	% 100.0	% 100.0	% 100.0

A significant amount of our products are used in surgical procedures with the majority of our revenues derived from the sale of single-use products. We manufacture substantially all of our products in facilities located in the United States, Mexico, and Finland. We market our products both domestically and internationally directly to customers and through distributors. International sales represent a significant portion of our business. During the three and six months ended June 30, 2010, sales to purchasers outside of the United States approximated 49% and 48%, respectively, of total net sales.

## Business Environment and Opportunities

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

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

We have a variety of research and development initiatives focused in each of our principal product lines as continued innovation and commercialization of new proprietary products and processes are essential elements of our long-term growth strategy. Our reputation as an innovator is exemplified by recent new product introductions such as the CONMED Linvatec Shoulder Restoration System, a comprehensive system for rotator cuff repair.

## Business Challenges

Given significant volatility in the financial markets and foreign currency exchange rates and depressed economic conditions in both domestic and international markets, 2009 presented significant business challenges. While we are cautiously optimistic that the overall global economic environment is improving and are therefore forecasting a return to revenue growth in 2010, there can be no assurance that the improvement in the economic environment will be sustained. We will continue to monitor and manage the impact of the overall economic environment on the Company.

During 2009 we successfully completed the first phase of our operational restructuring plan which we had previously announced in the second quarter of 2008. In the first quarter of 2010, we began the second phase of our operational restructuring plan which involves further expanding our lower cost Mexican operations by transferring additional production lines to our Chihuahua, Mexico facility which we believe will yield additional cost savings. We expect the second phase of our restructuring plan to be largely completed by the fourth quarter of 2010. 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 for, among other things, conformance to Quality System Regulation and Current Good Manufacturing Practice (“CGMP”) requirements. Our products are also subject to product recall and we have made product recalls in the past, including \$6.0 million in 2009 related to certain of our powered instrument handpieces. 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 initiative. However, there can be no assurance that our actions will ensure that we will not receive a warning letter or other regulatory action, which may include consent decrees or fines, or that we will not make product recalls in the future.

## Critical Accounting Policies

Preparation of our financial statements requires us to make estimates and assumptions which affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the consolidated financial statements in our Annual Report on Form 10-K for the year-ended December 31, 2009 describes significant accounting policies used in preparation of the consolidated financial statements. The most significant areas involving management judgments and estimates are described below and are considered by management to be critical to understanding the financial condition and results of operations of CONMED Corporation. There have been no significant changes in our critical accounting estimates during the quarter ended June 30, 2010.

## 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 in return for commitments to purchase single-use products over time periods generally ranging from one to three years. In these circumstances, no revenue is recognized upon capital equipment shipment and we recognize revenue upon the single-use product shipment. The cost of the equipment is amortized over the term of the individual commitment agreements.
- Product returns are only accepted at the discretion of the Company and in accordance with our “Returned Goods Policy”. Historically the level of product returns has not been significant. We accrue for sales returns, rebates and allowances based upon an analysis of historical customer returns and credits, rebates, discounts and current market conditions.
- Our terms of sale to customers generally do not include any obligations to perform future services. Limited warranties are provided for capital equipment sales and provisions for warranty are provided at the time of product sale based upon an analysis of historical data.
- Amounts billed to customers related to shipping and handling have been included in net sales. Shipping and handling costs are included in selling and administrative expense.
- We sell to a diversified base of customers around the world and, therefore, believe there is no material concentration of credit risk.
- We assess the risk of loss on accounts receivable and adjust the allowance for doubtful accounts based on this risk assessment. Historically, losses on accounts receivable have not been material. Management believes that the allowance for doubtful accounts of \$0.8 million at June 30, 2010 is adequate to provide for probable losses resulting from accounts receivable.

#### Inventory Reserves

We maintain reserves for 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. We believe that our current inventory reserves are adequate.

#### 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 goodwill of \$295.1 million and other intangible assets of \$193.0 million as of June 30, 2010.



In accordance with Financial Accounting Standards Board (“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. We last completed our goodwill impairment testing as of October 1, 2009 and determined that no impairment existed at that date. For our CONMED Electrosurgery, CONMED Endosurgery and CONMED Linvatec operating units, our impairment testing utilized CONMED Corporation’s EBIT multiple adjusted for a market-based control premium with the resultant fair values exceeding carrying values by 55% to 140%. Our CONMED Patient Care operating unit has the least excess of fair value over carrying value of our reporting units; we therefore utilized both a market-based approach and an income approach when performing impairment testing with the resultant fair value exceeding carrying value by 16%. The income approach contained certain key assumptions including that revenue would resume historical growth patterns in 2010 while including certain cost savings associated with the operational restructuring plan completed during 2009. We continue to monitor events and circumstances for triggering events which would more likely than not reduce the fair value of any of our reporting units and require us to perform impairment testing.

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 17 years. The weighted average life for customer relationship assets in aggregate is 32 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 annual analysis and assessment of actual customer attrition and activity. 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.

#### Pension Plan

We sponsor a defined benefit pension plan (“the plan”) covering substantially all our United States-based employees. 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.

On March 26, 2009, the Board of Directors approved a plan to freeze benefit accruals under the plan effective May 14, 2009. As a result, we recorded a curtailment gain of \$4.4 million and a reduction in accrued pension of \$11.4 million which is included in other long term liabilities. See Note 9 to the Consolidated Condensed 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 the projected benefit payment stream of the plan precisely. 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. This discount rate, which is used in determining pension expense, was 5.97% for the first quarter of 2009. The discount rate used for purposes of remeasuring plan liabilities as of the date the plan freeze was approved and for purposes of measuring pension expense for the remainder of 2009 was 7.30%. The rate used in determining 2010 pension expense is 5.86%.

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

For the three and six months ending June 30, 2010 we recorded pension expense of \$0.4 million and \$0.8 million, respectively. Pension expense for the full year 2010 is estimated at \$1.5 million compared to a net gain of \$0.8 million (including a \$4.4 million curtailment gain and pension expense of \$3.6 million) in 2009. In addition, we will be required to contribute approximately \$3.0 million to the pension plan for the 2010 plan year. We contributed \$0.6 million in the second quarter of 2010.

#### Stock Based Compensation

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

#### Income Taxes

The recorded future tax benefit arising from net deductible temporary differences and tax carryforwards is approximately \$34.6 million at June 30, 2010. Management believes that earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future income tax benefits.

We operate in multiple taxing jurisdictions, both within and outside the United States. We face audits from these various tax authorities regarding the amount of taxes due. Such audits can involve complex issues and may require an extended period of time to resolve. The Internal Revenue Service ("IRS") has completed examinations of our United States federal income tax returns through 2008. Tax years subsequent to 2008 are subject to future examination.

We have established a valuation allowance to reflect the uncertainty of realizing the benefits of certain net operating loss carryforwards recognized in connection with an acquisition. Effective January 1, 2009, changes in deferred tax valuation allowances and income tax uncertainties after the acquisition date, including those associated with acquisitions that closed prior to this effective date, generally will affect income tax expense. 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.

## Results of Operations

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2010	2009	2010
Net sales	100.0	% 100.0	% 100.0	% 100.0
Cost of sales	53.0	48.3	53.2	48.1
Gross profit	47.0	51.7	46.8	51.9
Selling and administrative expense	39.0	39.5	38.3	39.7
Research and development expense	4.5	3.6	4.8	4.0
Other expense (income)	0.4	0.5	-0.2	0.3
Income from operations	3.1	8.1	3.9	7.9
Gain (loss) on early extinguishment of debt	0.0	0.0	0.3	0.0
Amortization of bond discount	0.6	0.6	0.6	0.6
Interest expense	1.1	1.0	1.0	1.0
Income before income taxes	1.4	6.5	2.6	6.3
Provision for income taxes	0.4	2.5	1.2	2.2
Net income	1.0	% 4.0	% 1.4	% 4.1

## Three months ended June 30, 2010 compared to three months ended June 30, 2009

Sales for the quarterly period ended June 30, 2010 were \$181.1 million, an increase of \$16.5 million (10.0%) compared to sales of \$164.6 million in the comparable 2009 period with increases across all product lines except Endosurgery and Endoscopic Technologies. Foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$3.2 million of the increase. In local currency, sales increased 8.1%. Sales of capital equipment increased \$7.5 million (21.2%) to \$42.9 million in the second quarter of 2010 from \$35.4 million in the same period a year ago; sales of single-use products increased \$9.0 million (7.0%) to \$138.2 million in the second quarter of 2010 from \$129.2 million in the same period a year ago. On a local currency basis, sales of capital equipment increased 18.9% while single-use products increased 5.1%.

Cost of sales increased to \$87.4 million in the quarterly period ended June 30, 2010 as compared to \$87.3 million in the same period a year ago on overall increases in sales volumes as described above. Gross profit margins increased 4.7 percentage points to 51.7% in the quarterly period ended June 30, 2010 as compared to 47.0% in the same period a year ago. The increase in gross profit margins of 4.7 percentage points is primarily a result of the effects of favorable foreign currency exchange rates on sales (0.9 percentage points) and cost savings as a result of our restructuring efforts (3.8 percentage points).

Selling and administrative expense increased \$7.4 million to \$71.5 million in the quarterly period ended June 30, 2010 as compared to \$64.1 million in the same period a year ago. Foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$0.6 million of the increase. Selling and administrative expense as a percentage of net sales increased to 39.5% in the quarterly period ended June 30, 2010 as compared to 39.0% in the same period a year ago. This increase of 0.5 percentage points is primarily attributable to higher compensation and benefit costs during the period.



Research and development expense totaled \$6.4 million in the quarterly period ended June 30, 2010 as compared to \$7.4 million in the same period a year ago. As a percentage of net sales, research and development expense decreased to 3.6% compared to 4.5%. The decrease in research and development expense of 0.9 percentage points is mainly driven by decreased spending on our CONMED Linvatec (0.6 percentage points) and CONMED Patient Care products (0.2 percentage points) and decreases in our other operating units as a percentage of sales (0.1 percentage points).

As discussed in Note 10 to the Consolidated Condensed Financial Statements, other expense (income) in the quarterly period ended June 30, 2010 consisted of a \$1.0 million charge related to the consolidation of administrative functions in our CONMED Linvatec division. Other expense (income) in the quarterly period ended June 30, 2009 consisted of a \$0.7 million charge related to the restructuring of certain of the Company's operations.

During the quarter ended June 30, 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 Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources and Note 4 to the Consolidated Condensed Financial Statements.

Amortization of debt discount in the quarterly period ended June 30, 2010 was \$1.1 million compared to \$1.0 million in the same period a year ago. This amortization is associated with the implementation of FASB guidance as of January 1, 2009.

Interest expense in the quarterly period ended June 30, 2010 and June 30, 2009 remained flat at \$1.8 million. The interest expense remained flat due to lower weighted average borrowings outstanding in the quarterly period ended June 30, 2010 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 3.17% in the quarterly period ended June 30, 2010 as compared to 2.62% in the same period a year ago.

A provision for income taxes has been recorded at an effective tax rate of 38.5% for the quarterly period ended June 30, 2010 compared to the 37.5% effective tax rate recorded in the same period a year ago. The effective tax rate for the quarterly period ended June 30, 2010 is higher than that recorded in the same period a year ago as a result of the 2009 tax rate including the benefit of the research and development tax credit which has not been extended or recognized in 2010. A reconciliation of the United States statutory income tax rate to our effective tax rate is included in our Annual Report on Form 10-K for the year-ended December 31, 2009, Note 6 to the Consolidated Financial Statements.

Six months ended June 30, 2010 compared to six months ended June 30, 2009

Sales for the six months ended June 30, 2010 were \$357.5 million, an increase of \$28.9 million (8.8%) compared to sales of \$328.6 million in the comparable 2009 period with increases across all product lines except Endoscopic Technologies and Patient Care. Foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$11.1 million of the increase. In local currency, sales increased 5.4%. Sales of capital equipment increased \$8.5 million (11.7%) to \$81.0 million in the six months ended June 30, 2010 from \$72.5 million in the same period a year ago; sales of single-use products increased \$20.4 million (8.0%) to \$276.5 million in the six months ended June 30, 2010 from \$256.1 million in the same period a year ago. On a local currency basis, sales of capital equipment increased 8.4% while single-use products increased 4.6%.



Cost of sales decreased to \$172.0 million in the six months ended June 30, 2010 as compared to \$175.0 million in the same period a year ago on overall increases in sales volumes as described above. Gross profit margins increased 5.1 percentage points to 51.9% in the six months ended June 30, 2010 as compared to 46.8% in the same period a year ago. The increase in gross profit margins of 5.1 percentage points is primarily a result of the effects of favorable foreign currency exchange rates on sales (1.5 percentage points) and cost savings as a result of our restructuring efforts (3.6 percentage points).

Selling and administrative expense increased \$16.0 million to \$142.0 million in the six months ended June 30, 2010 as compared to \$126.0 million in the same period a year ago. Foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$3.5 million of the increase. Selling and administrative expense as a percentage of net sales increased to 39.7% in the six months ended June 30, 2010 as compared to 38.3% in the same period a year ago. This increase of 1.4 percentage points is primarily attributable to higher compensation and benefit costs during the period.

Research and development expense totaled \$14.1 million in the six months ended ended June 30, 2010 as compared to \$15.9 million in the same period a year ago. As a percentage of net sales, research and development expense decreased to 4.0% for the six months ended June 30, 2010 compared to 4.8% in the same period a year ago. The decrease in research and development expense of 0.8 percentage points is mainly driven by decreased spending on our CONMED Linvatec (0.4 percentage points) and CONMED Patient Care products (0.3 percentage points) and decreases in our other operating units as a percentage of sales (0.1 percentage points).

As discussed in Note 10 to the Consolidated Condensed Financial Statements, other expense (income) in the six months ended June 30, 2010 consisted of a \$1.0 million charge related to the consolidation of administrative functions in our CONMED Linvatec division. Other expense (income) in the six months ended June 30, 2009 consisted of a \$1.3 million charge related to the restructuring of certain of the Company's operations and a \$1.9 million first quarter net pension gain resulting from the freezing of future benefit accruals effective May 14, 2009.

During the quarter ended June 30, 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. During the first quarter of 2009, we repurchased and retired \$9.9 million of the Notes for \$7.8 million and recorded a gain on the early extinguishment of debt of \$1.1 million net of the write-offs of \$0.1 million in unamortized deferred financing costs and \$1.0 million in unamortized Notes discount. See additional discussion under Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources and Note 4 to the Consolidated Condensed Financial Statements.

Amortization of debt discount in the six months ended June 30, 2010 and 2009 remained flat at \$2.1 million. This amortization is associated with the implementation of FASB guidance as of January 1, 2009.

Interest expense in the six months ended June 30, 2010 was \$3.5 million as compared to \$3.3 million in the same period a year ago. The increase in interest expense is due to higher weighted average interest rates on our borrowings. The weighted average interest rate on our borrowings (inclusive of the finance charge on our accounts receivable sale facility) increased to 3.14% in the six months ended June 30, 2010 as compared to 2.63% in the same period a year ago.

A provision for income taxes has been recorded at an effective tax rate of 35.4% for the six months ended June 30, 2010 compared to the 27.7% effective tax rate recorded in the same period a year ago. The effective tax rate for the six months ended June 30, 2010 is higher than that recorded in the same period a year ago as a result of the settlement of our 2007 IRS examination in the first quarter of 2009, and the resulting adjustment to our reserves and reduction of income tax expense as well as the benefit of the research and development tax credit recognized in 2009 (not extended or recognized in 2010). A reconciliation of the United States statutory income tax rate to our effective tax rate is included in our Annual Report on Form 10-K for the year-ended December 31, 2009, 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. 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 their 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 units 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.

The following tables summarize the Company's results of operations by segment for the three and six month periods ended June 30, 2009 and 2010.

#### CONMED Linvatec, CONMED Electrosurgery and CONMED Endosurgery

	Three months ended June 30,		Six months ended June 30,	
	2009	2010	2009	2010
Net sales	\$ 135,088	\$ 151,698	\$ 268,649	\$ 299,104
Income from operations	14,751	21,271	27,262	38,527
Operating Margin	10.9	% 14.0	% 10.1	% 12.9

Product offerings include capital equipment such as electrosurgical generators, video systems, small bone, large bone and specialty hand pieces, and arthroscopic instrumentation for use in orthopedic surgery. Single-use product offerings include a complete line of endo-mechanical instrumentation for minimally invasive laparoscopic procedures, electrosurgical single-use products including pencils and ground pads and orthopedic single-use products such as burs,



blades, and implants.

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- Arthroscopy sales increased \$13.3 million (21.6%) in the quarter ended June 30, 2010 to \$74.9 million from \$61.6 million in the same period a year ago mainly due to our new shoulder restoration system and increases in our resection and video imaging products for arthroscopy and general surgery. Favorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$1.7 million of the increase. Sales of capital equipment increased \$4.9 million (31.4%) to \$20.5 million in the second quarter of 2010 from \$15.6 million in the same period a year ago; sales of single-use products increased \$8.4 million (18.3%) to \$54.4 million in the second quarter of 2010 from \$46.0 million in the same period a year ago. On a local currency basis, sales of capital equipment increased 28.8% while single-use products increased 15.4%. Arthroscopy sales increased \$21.7 million (17.3%) in the six months ended June 30, 2010 to \$147.1 million from \$125.4 million in the same period a year ago mainly due to our new shoulder restoration system and increases in our resection and video imaging products for arthroscopy and general surgery. Favorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$5.5 million of the increase. Sales of capital equipment increased \$5.2 million (16.0%) to \$37.8 million in the six months ended June 30, 2010 from \$32.6 million in the same period a year ago; sales of single-use products increased \$16.5 million (17.8%) to \$109.3 million in the six months ended June 30, 2010 from \$92.8 million in the same period a year ago. On a local currency basis, sales of capital equipment increased 12.6% while single-use products increased 13.0%.
- Powered surgical instrument sales increased \$2.2 million (6.6%) in the quarterly period ended June 30, 2010 to \$35.7 million from \$33.5 million in the comparable 2009 period mainly due to increases in large bone handpiece products. Favorable foreign currency exchange rates (when compared to the same period a year ago) accounted for approximately \$0.8 million of the increase. Sales of capital equipment increased \$2.2 million (15.3%) to \$16.6 million in the second quarter of 2010 from \$14.4 million in the same period a year ago; sales of single-use products remained flat at \$19.1 million in the second quarter of 2010 and 2009. On a local currency basis, sales of capital equipment increased 13.2% while single-use products decreased 2.6%. Powered surgical instrument sales increased \$4.4 million (6.6%) in the six months ended June 30, 2010 to \$70.7 million from \$66.3 million in the comparable 2009 period mainly due to increases in our large bone handpiece products. Favorable foreign currency exchange rates (when compared to the same period a year ago) accounted for approximately \$3.2 million of the increase. Sales of capital equipment increased \$2.3 million (7.9%) to \$31.4 million in the six months ended June 30, 2010 from \$29.1 million in the same period a year ago; sales of single-use products increased \$2.1 million (5.6%) to \$39.3 million in the six months ended June 30, 2010 from \$37.2 million in the same period a year ago. On a local currency basis, sales of capital equipment increased 4.1% while single-use products remained flat.
- Electrosurgery sales increased \$1.3 million (5.7%) in the quarterly period ended June 30, 2010 to \$24.0 million from \$22.7 million in the comparable 2009 period mainly due to increased pencil and System 5000 generator sales. Favorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$0.3 million of the increase. Sales of capital equipment increased \$0.4 million (7.4%) to \$5.8 million in the second quarter of 2010 from \$5.4 million in the same period a year ago; sales of single-use products increased \$0.9 million (5.2%) to \$18.2 million in the second quarter of 2010 from \$17.3 million in the same period a year ago. On a local currency basis, sales of capital equipment increased 5.6% while single-use products increased 4.0%. Electrosurgery sales increased \$2.0 million (4.4%) in the six months ended June 30, 2010 to \$47.1 million from \$45.1 million in the comparable 2009 period mainly due to increased pencil and System 5000 generator sales. Favorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) accounted for approximately \$1.0 million of the increase. Sales of capital equipment increased \$1.0 million (9.3%) to \$11.8 million in the six months ended June 30, 2010 from \$10.8 million in the same period a year ago; sales of single-use products increased \$1.0 million (2.9%) to \$35.3 million in the six months ended June 30, 2010 from \$34.3 million in the same period a year ago. On a local currency basis, sales of capital equipment increased 6.5% while single-use products increased 0.9%.



- Endosurgery sales decreased \$0.2 million (-1.2%) in the quarterly period ended June 30, 2010 to \$17.1 million compared to \$17.3 million in the same period a year ago mainly due to lower trocar sales. Favorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) increased sales approximately \$0.1 million. On local currency basis, sales decreased 1.7%. Endosurgery sales increased \$2.4 million (7.5%) in the six months ended June 30, 2010 to \$34.2 million from \$31.8 million in the comparable 2009 period mainly due to increased sales of our V-CARE products. Favorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) account for approximately \$0.6 million of the increase. On a local currency basis, sales increased 5.7%.
- Operating margins as a percentage of net sales increased 3.1 percentage points to 14.0% in the quarterly period ended June 30, 2010 compared to 10.9% in 2009 principally as a result of higher gross margins (1.7 percentage points) mainly driven by favorable foreign currency exchange rates and lower sales force and other administrative expenses (1.4 percentage points) as a percentage of sales.
- Operating margins as a percentage of net sales increased 2.8 percentage points to 12.9% in the six months ended June 30, 2010 compared to 10.1% in 2009 principally as a result of higher gross margins (2.3 percentage points) mainly driven by favorable foreign currency exchange rates and lower sales force and other administrative expenses (0.5 percentage points) as a percentage of sales.

## CONMED Patient Care

	Three months ended		Six months ended	
	June 30, 2009	2010	June 30, 2009	2010
Net sales	\$ 16,971	\$ 17,461	\$ 35,436	\$ 34,620
Income/(loss) from operations	(1,182 )	1,200	(1,622 )	1,546
Operating Margin	(7.0 %)	6.9 %	(4.6 %)	4.5 %

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

- Patient care sales increased \$0.5 million (2.9%) in the quarter ended June 30, 2010 to \$17.5 million from \$17.0 million in the same period a year ago mainly due to increases in suction instrument sales. Favorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) account for approximately \$0.1 million of the increase. On a local currency basis, sales increased 2.4%. Patient care sales decreased \$0.8 million (-2.3%) in the six months ended June 30, 2010 to \$34.6 million from \$35.4 million in the same period a year ago as a result of decreased sales of defibrillator pads and ECG electrodes and the discontinuation of the versa stim product. Favorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) increased sales approximately \$0.3 million. On a local currency basis, sales decreased 3.1%.
- Operating margins as a percentage of net sales increased 13.9 percentage points to 6.9% for the quarter ended June 30, 2010 compared to -7.0% in 2009 while operating margins increased 9.1 percentage points to 4.5% for the six months ended June 30, 2010 compared to -4.6% in the same period a year ago. The increase in operating margins in the quarter and six months ended June 30, 2010 was primarily driven by higher gross margins (9.9 and 5.9 percentage points, respectively) mainly due to cost improvements resulting from our operational restructuring, lower research and development spending (2.0 percentage points in the respective periods) and lower administrative expenses (2.0 and 1.2 percentage points, respectively).

## CONMED Endoscopic Technologies

	Three months ended		Six months ended	
	June 30, 2009	2010	June 30, 2009	2010
Net sales	\$ 12,510	\$ 11,927	\$ 24,546	\$ 23,727
Loss from operations	(1,381 )	(237 )	(3,223 )	(38 )
Operating Margin	(11.0 %)	(2.0 %)	(13.1 %)	(0.2 %)

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

- Endoscopic Technologies sales decreased \$0.6 million (-4.8%) in the quarter ended June 30, 2010 to \$11.9 million compared to \$12.5 million in the same period a year ago. Favorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) increased sales approximately \$0.2 million. On a local currency basis, sales decreased 6.4%. Endoscopic Technologies sales decreased \$0.8 million (-3.3%) in the six months ended June 30, 2010 to \$23.7 million from \$24.5 million in the same period a year ago. Favorable foreign currency exchange rates (when compared to the foreign currency exchange rates in the same period a year ago) increased sales approximately \$0.6 million. On a local currency basis, sales decreased 5.7%.
- Operating margins as a percentage of net sales increased 9.0 percentage points to -2.0% in the quarterly period ending June 30, 2010 compared to -11.0% in 2009 while operating margins increased 12.9 percentage points to -0.2% in the six months ended June 30, 2010 compared to -13.1% in the same period a year ago. The increase in operating margins in the quarter and six months ending June 30, 2010 is principally due to higher gross margins (1.1 and 5.4 percentage points, respectively) mainly due to cost improvements resulting from the operations restructuring and favorable foreign currency exchange rates, lower research and development spending of (3.2 percentage points in the respective periods) and overall lower administrative expenses as a result of the consolidation of the CONMED Endoscopic Technologies division into the Corporate facility (4.7 and 4.3 percentage points, respectively).

#### 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, including sales of accounts receivable and borrowings under our revolving credit facility. In addition, we use term borrowings, including borrowings under our 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.

#### Cash provided by operations

Our net working capital position was \$242.3 million at June 30, 2010. Net cash provided by operating activities was \$5.5 million in the six months ended June 30, 2010 and \$14.0 million in the same period a year ago.

Net cash provided by operating activities decreased by \$8.5 million in 2010 as compared to 2009 on a \$8.7 million increase in net income in the six months ended June 30, 2010 as compared to the same period a year ago. The decline in operating activities is driven by a new accounting pronouncement effective January 1, 2010, which requires our accounts receivable sold under our accounts receivable sale agreement be recorded as additional borrowings rather than as a reduction in accounts receivable. This change in accounting has been reflected on a prospective basis. Accordingly, cash collections on behalf of the purchaser of the \$29.0 million undivided percentage ownership interest in accounts receivable sold prior to January 1, 2010 have been presented as a reduction in cash from operations while net sales of additional accounts receivable have been presented as an increase in cash flows from financing activities. See Note 13 for further discussion of the change in accounting for the accounts receivable sales agreement.

### Investing cash flows

Net cash used in investing activities in the six months ended June 30, 2010 consisted of the purchase of a business and capital expenditures. The cash purchase price of a business acquired during the six months ended June 30, 2010 approximated \$5.0 million (see Note 15 further discussion). Capital expenditures were \$12.0 million and \$7.2 million for the six months ended June 30, 2009 and 2010, respectively. The decrease in capital expenditures in the six months ended June 30, 2010 as compared to the same period a year ago is primarily due to the completion during the second quarter of 2009 of the implementation of an enterprise business software application as well certain other infrastructure improvements related to our restructuring efforts as more fully described in Note 14 and in "Restructuring" below. Capital expenditures are expected to approximate \$22.0 million in 2010.

### Financing cash flows

Net cash provided by financing activities in the six months ended June 30, 2010 consist principally of \$31.0 million in net secured borrowings under our accounts receivable sales agreement (see Note 13), \$10.0 million in repayments on our revolving credit facility under our senior credit agreement, \$9.4 million in repurchases of treasury stock, and a \$2.9 million repurchase of our 2.50% convertible senior subordinated notes.

Our \$235.0 million senior credit agreement (the "senior credit agreement") consists of a \$100.0 million revolving credit facility and a \$135.0 million term loan. There were no borrowings outstanding on the revolving credit facility as of June 30, 2010. Our available borrowings on the revolving credit facility at June 30, 2010 were \$91.6 million with approximately \$8.4 million of the facility set aside for outstanding letters of credit. There were \$55.6 million in borrowings outstanding on the term loan at June 30, 2010.

Borrowings outstanding on the revolving credit facility are due and payable on April 12, 2011. The scheduled principal payments on the term loan portion of the senior credit agreement are \$1.4 million annually through December 2011, increasing to \$53.6 million in 2012 with the remaining balance outstanding due and payable on April 12, 2013. We may also be required, under certain circumstances, to make additional principal payments based on excess cash flow as defined in the senior credit agreement. Interest rates on the term loan portion of the senior credit agreement are at LIBOR plus 1.50% (1.75% at June 30, 2010) or an alternative base rate; interest rates on the revolving credit facility portion of the senior credit agreement are at LIBOR plus 1.25% or an alternative base rate (3.625% at June 30, 2010). 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 0.50%, plus a margin of 0.50% for term loan borrowings or 0.25% for borrowings under the revolving credit facility.

The senior credit agreement is collateralized by substantially all of our personal property and assets, except for our accounts receivable and related rights which are pledged in connection with our accounts receivable sales agreement. 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 June 30, 2010. We are also required, under certain circumstances, to make mandatory prepayments from net cash proceeds from any issue of equity and asset sales.



Mortgage notes outstanding in connection with the property and facilities utilized by our CONMED Linvatec subsidiary consist of a note 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 \$10.9 million at June 30, 2010. This mortgage note is collateralized by the CONMED Linvatec property and facilities.

We have outstanding \$112.1 million in 2.50% convertible senior subordinated notes due 2024 (“the Notes”). During the quarter ended June 30, 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. During the first quarter of 2009, we repurchased and retired \$9.9 million of the Notes for \$7.8 million and recorded a gain on the early extinguishment of debt of \$1.1 million net of the write-offs of \$0.1 million in unamortized deferred financing costs and \$1.0 million in unamortized Notes discount. The Notes represent subordinated unsecured obligations and are convertible under certain circumstances, as defined in the bond indenture, into a combination of cash and CONMED common stock. Upon conversion, the holder of each Note will receive the conversion value of the Note payable in cash up to the principal amount of the Note and CONMED common stock for the Note’s conversion value in excess of such principal amount. Amounts in excess of the principal amount are at an initial conversion rate, subject to adjustment, of 26.1849 shares per \$1,000 principal amount of the Note (which represents an initial conversion price of \$38.19 per share). As of June 30, 2010, there was no value assigned to the conversion feature because the Company’s share price was below the conversion price. The Notes mature on November 15, 2024 and are not redeemable by us prior to November 15, 2011. Holders of the Notes have the right to put to us some or all of the Notes for repurchase on November 15, 2011, 2014 and 2019 and, provided the terms of the indenture are satisfied, we will be required to repurchase those Notes.

The Notes contain two embedded derivatives. The embedded derivatives are recorded at fair value in other long-term liabilities and changes in their value are recorded through the consolidated statements of income. The embedded derivatives have a nominal value, and it is our belief that any change in their fair value would not have a material adverse effect on our business, financial condition, results of operations or cash flows.

We have an accounts receivable sales agreement pursuant to which we and certain of our subsidiaries sell on an ongoing basis certain accounts receivable to CONMED Receivables Corporation (“CRC”), a wholly-owned, bankruptcy-remote, special-purpose subsidiary of CONMED Corporation. CRC may in turn sell up to an aggregate \$40.0 million undivided percentage ownership interest in such receivables (the “asset interest”) to a bank (the “purchaser”). The purchaser’s share of collections on accounts receivable are calculated as defined in the accounts receivable sales agreement, as amended. Effectively, collections on the pool of receivables flow first to the purchaser and then to CRC, but to the extent that the purchaser’s share of collections may be less than the amount of the purchaser’s asset interest, there is no recourse to CONMED or CRC for such shortfall. For receivables which have been sold, CONMED Corporation and its subsidiaries retain collection and administrative responsibilities as agent for the purchaser. As of June 30, 2010, the undivided percentage ownership interest in receivables sold by CRC to the purchaser aggregated \$31.0 million. Effective January 1, 2010, new accounting guidance requires such receivables sales to be accounted for as additional borrowings and recorded in the current portion of long term debt rather than as previously treated as a sale and reflected in the balance sheet as a reduction in accounts receivable. This guidance is required to be applied on a prospective basis, therefore the December 31, 2009 balance sheet reflects accounts receivable sold under the accounts receivable sales agreement as a reduction in accounts receivable, not as additional borrowings - see Note 13 for further discussion. Expenses associated with the sale of accounts receivable, including the purchaser’s financing costs to purchase the accounts receivable were \$0.2 million in the six month period ended June 30, 2010 and are included in interest expense.



There are certain statistical ratios, primarily related to sales dilution and losses on accounts receivable, which must be calculated and maintained on the pool of receivables in order to continue selling to the purchaser. The pool of receivables is in compliance with these ratios. Management believes that additional accounts receivable arising in the normal course of business will be of sufficient quality and quantity to meet the requirements for sale under the accounts receivables sales agreement. In the event that new accounts receivable arising in the normal course of business do not qualify for sale, then collections on sold receivables will flow to the purchaser rather than being used to fund new receivable purchases. To the extent that such collections would not be available to CONMED in the form of new receivables purchases, we would need to access an alternate source of working capital, such as our \$100 million revolving credit facility. Our accounts receivable sales agreement, as amended, also requires us to obtain a commitment (the "purchaser commitment") from the purchaser to fund the purchase of our accounts receivable. The purchaser commitment currently extends through October 29, 2010.

Our Board of Directors has authorized a share repurchase program under which we may repurchase up to \$100.0 million of our common stock, although no more than \$50.0 million in any calendar year. We repurchased \$9.5 million under the share repurchase program during the six months ended June 30, 2010. We have financed the repurchases and may finance additional repurchases through the proceeds from the issuance of common stock under our stock option plans, from operating cash flow and from available borrowings under our revolving credit facility

#### Restructuring

During the first quarter of 2010, we began the second phase of our operational restructuring plan which includes the transfer of additional production lines from Utica, New York to our manufacturing facility in Chihuahua, Mexico.

As of June 30, 2010, we have incurred \$1.6 million in costs associated with the restructuring. These costs were charged to cost of goods sold and include severance and other charges associated with the transfer of production to Mexico.

We estimate the total cost of the second phase of our restructuring plan will approximate \$3.0 million during 2010, including \$1.5 million related to employee termination costs and \$1.5 million in other restructuring related activities. We expect to include these restructuring costs in cost of goods sold. The second phase of the restructuring plan impacts Corporate manufacturing facilities which support multiple reporting segments. As a result, costs associated with the second phase of our restructuring plan will be reflected in the Corporate line within our business segment reporting.

During the second quarter of 2010, we incurred \$1.0 million in restructuring costs associated with the consolidation of administrative functions in our CONMED Linvatec division.

#### New accounting pronouncements

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

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in our primary market risk exposures or in how these exposures are managed during the three and six month periods ended June 30, 2010. Reference is made to Item 7A. of our Annual Report on Form 10-K for the year-ended December 31, 2009 for a description of Qualitative and Quantitative Disclosures About Market Risk.

#### Item 4. Controls and Procedures

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) was carried out under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and the Vice President-Finance and Chief Financial Officer ("the Certifying Officers") as of June 30, 2010. Based on that evaluation, the Certifying Officers concluded that the Company's disclosure controls and procedures are effective. There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### PART II OTHER INFORMATION

#### Item 1. Legal Proceedings

Reference is made to Item 3 of the Company's Annual Report on Form 10-K for the year-ended December 31, 2009 and to Note 12 of the Notes to Consolidated Condensed Financial Statements included in Part I of this Report for a description of certain legal matters.

## Item 2. Issuer Purchase of Equity Securities

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 June 30, 2010:

## 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 Programs <sup>2</sup>	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
April 1, 2010 – April 30, 2010	-	\$ -	-	\$ 46,778,000
May 1, 2010 – May 31, 2010	-	-	-	46,778,000
June 1, 2010 – June 30, 2010	474,871	19.94	474,871	37,307,000
<b>Total</b>	<b>474,871</b>	<b>\$ 19.94</b>	<b>474,871</b>	

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

<sup>2</sup> On February 15, 2005, the Company announced that its Board of Directors authorized a share repurchase program under which it may repurchase up to \$50.0 million of the Company's common stock, although no more than \$25.0 million may be purchased in any calendar year. The Board of Directors subsequently amended this program on December 2, 2005 to authorize repurchases of \$100.0 million of the Company's common stock, although no more than \$50.0 million may be purchased in a calendar year. There is no expiration date governing the period over which the Company can make its share repurchases under the \$100.0 million share repurchase program.

Item 6. Exhibits

Exhibits

Exhibit No. Description of Exhibit

31.1	Certification of Joseph J. Corasanti pursuant to Rule 13a-14(a) or Rule 15d-14(a), of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Robert D. Shallish, Jr. pursuant to Rule 13a-14(a) or Rule 15d-14(a), of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Joseph J. Corasanti and Robert D. Shallish, Jr. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

CONMED CORPORATION  
(Registrant)

Date: July 30, 2010

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

Exhibit Index

Exhibit		Sequential Page Number
<u>31.1</u>	Certification of Joseph J. Corasanti pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	E-1
<u>31.2</u>	Certification of Robert D. Shallish, Jr. pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	E-2
<u>32.1</u>	Certification of Joseph J. Corasanti and Robert D. Shallish, Jr. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	E-3

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