

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended June 28, 1996

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.)

310 Broad Street, Utica, New York
(Address of principal executive offices)

13501
(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 [x] No []

The number of shares outstanding of registrant's common stock, as of July 20, 1996 is 14,937,676 shares.

CONMED CORPORATION

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CONMED CORPORATION
 CONSOLIDATED STATEMENTS OF INCOME
 (thousands except per share amounts)
 (unaudited)

	For the three months ended		For the six months ended	
	June 30, 1995	June 28, 1996	June 30, 1995	June 28, 1996
Net Sales	\$ 25,875	\$ 31,790	\$ 45,628	\$ 60,990
Cost and expenses:				
Cost of Sales	13,498	16,505	24,223	31,672
Selling and administrative ...	6,779	8,140	12,117	15,696
Research and development	670	694	1,334	1,377
Total operating expenses	20,947	25,339	37,674	48,745
Income from operations	4,928	6,451	7,954	12,245
Interest income (expense), net	(501)	150	(695)	(532)
Income before taxes	4,427	6,601	7,259	11,713
Provision for income taxes ...	1,609	2,377	2,601	4,217
Net Income	\$ 2,818	\$ 4,224	\$ 4,658	\$ 7,496
Weighted average common shares and equivalents	11,816	15,229	11,100	13,805
Earnings per share	\$ 0.24	\$ 0.28	\$ 0.42	\$ 0.54

See notes to consolidated financial statements.

CONMED CORPORATION
 CONSOLIDATED BALANCE SHEETS
 (in thousands except share amounts)

	December 29, 1995	June 28, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,539	\$ 8,348
Accounts receivable, net	22,649	25,506
Income taxes receivable	961	--
Inventories (Note 4)	20,943	24,384
Deferred income taxes	2,678	2,678

Prepaid expenses and other current assets	476	1,215
	-----	-----
Total current assets	49,246	62,131
Property, plant and equipment, net	19,728	29,335
Deferred income taxes	2,907	2,907
Covenant not to compete	1,153	933
Goodwill	41,438	61,383
Patents, trademarks, and other assets	4,931	5,780
	-----	-----
Total assets	\$119,403	\$162,469
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt	\$ 6,000	\$ --
Accounts payable	2,351	2,458
Income taxes payable	--	884
Accrued payroll and withholdings	2,282	1,546
Accrued pension	274	597
Other current liabilities	989	1,757
	-----	-----
Total current liabilities	11,896	7,242
Long-term debt	26,340	--
Accrued pension	276	276
Deferred compensation	868	937
Long-term leases	3,521	3,199
Other long-term liabilities	1,500	1,491
	-----	-----
	44,401	13,145
	-----	-----

(Continued)

CONMED CORPORATION
CONSOLIDATED BALANCE SHEETS -- Continued
(in thousands except share amounts)

December 29, June 28,
1995 1996

Shareholders' equity:		
Preferred stock, par value \$.01 per share; authorized 500,000 shares; none outstanding		
Common stock, par value \$.01 per share; 20,000,000 authorized; 11,000,105 and 14,933,353 issued and outstanding in 1995 and 1996, respectively	110	150
Paid-in capital	44,560	111,346
Retained earnings	30,332	37,828
	-----	-----
	75,002	149,324
	-----	-----
Total liabilities and shareholders' equity	\$119,403	\$162,469
	=====	=====

See notes to consolidated financial statements.

CONMED CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(in thousands)
(unaudited)

For the six months ended

June 30, June 28,

	1995	1996
	-----	-----
Cash flows from operating activities:		
Net income	\$ 4,658	\$ 7,496
Adjustments to reconcile net income		
to net cash provided by operations:		
Depreciation	1,359	1,809
Amortization	895	1,432
Increase (decrease) in cash flows		
from changes in assets and liabilities:		
Accounts receivable	(1,043)	(283)
Inventories	(4,061)	(1,376)
Prepaid expenses and other current asset ...	(301)	(585)
Other assets	538	(1,277)
Accounts payable	(374)	107
Income tax payable	633	1,845
Income tax benefit of stock option exercises		1,032
Accrued payroll and withholdings	(350)	(736)
Accrued pension	291	323
Accrued patent litigation costs	(2,360)	
Other current liabilities	681	(2,465)
Other liabilities	(54)	(232)
	-----	-----
	(4,146)	(406)
	-----	-----
Net cash provided by operations	512	7,090
	-----	-----
Cash flows from investing activities:		
Business acquisitions	(10,451)	(31,172)
Acquisition of property, plant, and equipment	(2,984)	(2,232)
	-----	-----
Net cash used by investing activities	(13,435)	(33,404)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	765	65,794
Proceeds of long and short term debt	26,590	32,660
Payments on debt and other obligations	(15,761)	(65,331)
	-----	-----
Net cash provided by financing activities	11,594	33,123
	-----	-----
Net increase (decrease) in cash		
and cash equivalents	(1,329)	6,809
Cash and cash equivalents at beginning of period	3,615	1,539
	-----	-----
Cash and cash equivalents at end of period	\$ 2,286	\$ 8,348
	=====	=====

See notes to consolidated financial statements.

CONMED CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Consolidation

The consolidated financial statements include the accounts of CONMED Corporation ("the Company") and its subsidiaries. The Company is primarily engaged in the development, manufacturing and marketing of disposable medical products and related devices. All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 2 - Interim financial information

The statements for the three and six months ended June 30, 1995 and June 28, 1996 are unaudited; in the opinion of the Company such unaudited statements include all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation of the results for such periods. The consolidated financial statements for the year ending December 27, 1996 are subject to adjustment at the end of the year when they will be audited by independent accountants. The results of operations for the three and six months ended June 30, 1995 and June 28, 1996 are not necessarily indicative of the results of operations to be expected for any other quarter nor for the year

ending December 27, 1996. The consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes for the years ended December 30, 1994 and December 29, 1995 included in the Company's Annual Report to the Securities and Exchange Commission on Form 10-K.

Note 3 - Earnings per share

Earnings per share was computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding during the quarter.

Note 4 - Inventories

The components of inventory are as follows (in thousands):

	December 29, 1995	June 28, 1996
	-----	-----
Raw materials.....	\$ 7,209	\$ 7,760
Work-in-process.....	5,680	7,887
Finished goods.....	8,054	8,737
	-----	-----
Total.....	\$20,943	\$24,384
	=====	=====

Note 5 - Business acquisitions

On March 14, 1995, the Company acquired Birtcher Medical Systems, Inc. ("Birtcher") through an exchange of the Company's common stock for all of the outstanding common and preferred stock of Birtcher. In connection with this transaction, the Company issued 1,590,000 shares of common stock valued at \$17,750,000 and assumed approximately \$3,500,000 of net liabilities. The acquisition was accounted for using the purchase method of accounting. Accordingly, the results of operations of the acquired business are included in the consolidated results of the Company from the date of acquisition. Goodwill associated with the acquisition is being amortized on a straight-line basis over a 40 year period.

On May 19, 1995, the Company acquired the business and certain assets of the Master Medical Corporation ("Master Medical") for a cash purchase price of approximately \$9,500,000 and assumption of \$500,000 of liabilities. The acquisition was accounted for using the purchase method of accounting. Accordingly, the results of operations of the acquired business are included in the consolidated results of the Company from the date of acquisition. Goodwill associated with the acquisition is being amortized on a straight-line basis over a 15 year period.

On February 23, 1996, the Company acquired the business and certain assets of New Dimensions in Medicine, Inc. ("NDM") for a cash purchase price of approximately \$31.2 million and the assumption of \$2.7 million of liabilities. The acquisition is being accounted for using the purchase method of accounting. Accordingly, the results of operations of the acquired business are included in the consolidated results of the Company from the date of acquisition. Goodwill associated with the acquisition is being amortized on a straight line basis over a 40 year period. The allocation of the purchase price for this acquisition is based on management's preliminary estimates; it is possible that re-allocations will be required during the next twelve months as additional information becomes available. Management does not believe that such re-allocations will have a material effect on the Company's results of operations or financial position.

On an unaudited pro forma basis, assuming each of the acquisitions had occurred as of the beginning of the periods, the consolidated results of the Company would have been as follows (in thousands, except per share amounts):

For the Three Months Ended	For the Six Months Ended	
June 28, 1996	June 30, 1995	June 28, 1996
-----	-----	-----

Pro forma net sales	\$ 32,188	\$ 64,342	\$63,490
	=====	=====	=====
Pro forma net income	\$ 3,317	\$ 6,532	\$ 7,717
	=====	=====	=====
Pro forma earnings per common, and common equivalent shares	\$.28	\$.56	\$.56
	=====	=====	=====

Note 6 - Stock Split and Stock Offering

On October 31, 1995, the Board of Directors of the Company declared a three-for-two split of the Company's common stock, to be effected in the form of a stock dividend, payable on November 30, 1995 to shareholders of record on November 13, 1995. Accordingly, common stock, retained earnings, earnings per share, the number of shares outstanding, and the weighted average number of shares and equivalents outstanding, have been restated to retroactively reflect the split.

On March 20, 1996, the Company completed a public offering of its common stock whereby 3,000,000 and 850,000 shares of common stock were sold by the Company and certain shareholders, respectively. The common shares sold by the shareholders were received upon the exercise of a warrant and options during the first quarter of 1996. Net proceeds to the Company related to the sale of 3,000,000 shares and exercise of the warrant and options amounted to approximately \$62,500,000 and \$3,500,000, respectively. Of the aggregate proceeds, \$65,000,000 was used to eliminate the Company's indebtedness under its credit agreements.

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

Three months ended June 28, 1996 compared to three months ended June 30, 1995

Sales for the quarter ended June 28, 1996 were \$31,790,000, an increase of 22.9% compared to sales of \$25,875,000 in the quarter ended June 30, 1995. The increase is primarily a result of incremental sales volume associated with NDM acquisition which became effective February 23, 1996, and the Master Medical acquisition which was reflected in second quarter 1995 results only from the acquisition date of May 19, 1995.

Cost of sales increased to \$16,505,000 in the current quarter compared to the \$13,498,000 in the same quarter a year ago as a result of increased sales volume. The gross margin percentage increased to 48.1% from 47.8%. The continued improvement in gross margin percentage reflects the economies of scale and manufacturing efficiencies resulting from the completed acquisitions, and the cost saving resulting from the fourth quarter 1995 move of the Company's ECG electrode manufacturing facility from Haverhill, Massachusetts to Rome, New York.

Selling and administrative expenses increased to \$8,140,000 compared to \$6,779,000 in the second quarter of 1995. This increase results from the effects of the acquisitions. As a percentage of sales, however, selling and administrative expense declined to 25.6% from 26.2% in the comparable period of 1995. This decrease results from economies of scale and the elimination of duplicate administrative and selling costs from the acquired businesses.

Research and development expenditures remained substantially the same in the second quarter of 1996 compared to 1995.

The second quarter of 1996 had interest income of \$150,000 compared to interest expense of \$501,000 in the second quarter of 1995. As discussed below under Liquidity and Capital Resources, all of the Company indebtedness was repaid in the first quarter of 1996 with the proceeds of a March 1996 equity offering.

The provision for income tax increased in 1996 due to the higher income before tax.

Six months ended June 28, 1996 compared to six months ended June 30, 1995

The Company recorded net sales of \$60,990,000 for the six months ended

June 28, 1996 compared to \$45,628,000 for the six months ended June 30, 1995, an increase of 34%. The increase is substantially a result of the effects of the Birtcher, Master Medical and NDM acquisitions.

The Company's gross margin was 48.1% for the first six months of 1996 compared to 46.9% for the first six months of 1995. As discussed above, the increase in gross margin percent is primarily a result of economies of scale and efficiencies resulting from the completed acquisitions and the move of the Company's ECG electrode manufacturing facility.

Selling and administrative costs have increased comparing the first six months of 1996 with the first six months of 1995 due to the effects of the acquisitions. However, as a percentage of sales, selling and administrative expense declined to 25.7% from 26.6% in the prior comparable period due to economies of scale resulting from acquisitions.

The first six months of 1996 had interest expense of \$532,000 compared to interest expense of \$695,000 in the first six months of 1995. As discussed under Liquidity and Capital Resources, maximum borrowings during the first two quarters of 1996 was \$65,000,000 of which \$32,660,000 related to borrowings associated with the February 23, 1996 acquisition of NDM. All such indebtedness was repaid in late March 1996 with proceeds from the Company's equity offering. Aggregate indebtedness at June 30, 1995 was approximately \$35,000,000 of which approximately \$11,000,000 was incurred in the first six months of 1995 to facilitate the Birtcher acquisition and \$10,000,000 was incurred to acquire Master Medical on May 19, 1995.

Liquidity and Capital

Cash flows provided or used by operating, investing and financing activities for the first six months of 1995 and 1996 are disclosed in the Consolidated Statements of Cash Flows. Net cash provided by operations was \$7,090,000 for the first six months of 1996 as compared to \$512,000 for the first six months of 1995. Operating cash flows for the first half of 1996 were aided by higher net income compared to the same period in 1995. Depreciation and amortization in 1996 increased due primarily to the effects of the completed acquisitions. First half 1996 cash flows from operations were negatively impacted by increases in inventories and other assets, and payments of other current liabilities. Adding to cash flows from operations were increases in income taxes payable and the income tax benefit of stock option exercises.

Net cash used by investing activities was \$33,404,000 in the first half of 1996 compared to \$13,435,000 in the first half of 1995. Cash used for the 1996 acquisition of NDM approximated \$31,172,000. Additions to property, plant and equipment for the first six months of 1996 amounted to \$2,232,000.

Cash flows from financing activities were \$33,123,000 for the first six months of 1996. In connection with the NDM acquisition on February 23, 1996, the Company borrowed \$32,660,000 bringing aggregate borrowings under its credit facility to \$65,000,000. On March 20, 1996, the Company completed an equity offering of common stock and used \$65,000,000 of the proceeds to eliminate the indebtedness of the Company.

The Company's credit facility consists of a \$60,000,000 secured revolving line of credit which expires in March 2001. This facility carries an interest rate of 0.5%-1.25% over LIBOR depending on defined cash flow performance ratios.

Management believes that cash generated from operations, its current cash resources and funds available under its banking agreement will provide sufficient liquidity to ensure continued working capital for operations and funding of capital expenditures in the foreseeable future.

Item 6. Exhibits and Reports on Form 8-K

List of Exhibits

Exhibit No.	Description
- - - - -	- - - - -
11	Computation of weighted average number of shares of common stock

Reports on Form 8-K

None

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: August 8, 1996

/s/ Robert D. Shallish, Jr.

Robert D. Shallish, Jr.
Vice President - Finance
(Principal Financial Officer)

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Exhibit

11 - Computations of weighted average
number of shares of common stock

EXHIBIT 11

Computation of weighted average number of shares of common stock

	For the three months ended		For the six months ended	
	June 30, 1995	June 28, 1996	June 30, 1995	June 28, 1996
Shares outstanding at beginning of period	10,670	14,885	9,059	11,105
Weighted average shares issued	30	26	958	2,033
Incremental shares of common stock outstanding giving effect to stock options and warrant	1,116	318	1,083	667
	11,816	15,229	11,100	13,805
	=====	=====	=====	=====

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