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

For the quarterly period ended	Commission File Number
September 30, 2020	001-39218

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

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

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

Securities registered pursuant to Section 12(b) of the Act

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.01 par value	CNMD	NYSE

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares outstanding of registrant's common stock, as of October 26, 2020 is 28,601,599 shares.

CONMED CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2020

PART I FINANCIAL INFORMATION

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PART I FINANCIAL INFORMATION

Item 1.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net sales	$ 237,835	$ 233,590	$ 609,631	$ 690,232
Cost of sales	104,137	103,479	284,845	307,492
Gross profit	133,698	130,111	324,786	382,740
Selling and administrative expense	94,380	98,187	274,721	298,140
Research and development expense	9,936	10,985	28,756	33,366
Operating expenses	104,316	109,172	303,477	331,506
Income from operations	29,382	20,939	21,309	51,234
Interest expense	11,943	11,174	32,938	32,382
Other expense	89	321	266	4,867
Income (loss) before income taxes	17,350	9,444	(11,895)	13,985
Provision for income taxes	10,500	2,474	2,728	299
Net income (loss)	$ 6,850	$ 6,970	$ (14,623)	$ 13,686
Comprehensive income (loss)	$ 8,976	$ 4,661	$ (16,858)	$ 11,508
Per share data:				
Net income (loss)				
Basic	$ 0.24	$ 0.25	$ (0.51)	$ 0.48
Diluted	0.23	0.23	(0.51)	0.47
Weighted average common shares				
Basic	28,583	28,353	28,529	28,280
Diluted	29,426	29,792	28,529	29,354

See notes to consolidated condensed financial statements.

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

	September 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35,598	$ 25,856
Accounts receivable, net	166,593	189,097
Inventories	182,668	164,616
Prepaid expenses and other current assets	19,369	17,794
Total current assets	404,228	397,363
Property, plant and equipment, net	112,253	118,883
Goodwill	617,393	618,042
Other intangible assets, net	509,684	532,800
Other assets	99,571	108,007
Total assets	$ 1,743,129	$ 1,775,095
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 16,805	$ 13,596
Accounts payable	57,197	55,968
Accrued compensation and benefits	44,869	53,690
Other current liabilities	60,168	64,833
Total current liabilities	179,039	188,087
Long-term debt	760,451	755,211
Deferred income taxes	72,906	74,488
Other long-term liabilities	47,592	46,842
Total liabilities	1,059,988	1,064,628
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value $0.01 per share; authorized 500,000 shares; none outstanding	—	—
Common stock, par value $0.01 per share; 100,000,000 shares authorized; 31,299,194 shares issued in 2020 and 2019, respectively	313	313
Paid-in capital	381,119	379,324
Retained earnings	439,086	470,844
Accumulated other comprehensive loss	(61,512)	(59,277)
Less: 2,703,178 and 2,876,729 shares of common stock in treasury, at cost in 2020 and 2019, respectively	(75,865)	(80,737)
Total shareholders’ equity	683,141	710,467
Total liabilities and shareholders’ equity	$ 1,743,129	$ 1,775,095

See notes to consolidated condensed financial statements.

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

	Common Stock						
	Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Shareholders' Equity
Balance at December 31, 2019	31,299	$ 313	$ 379,324	$ 470,844	$ (59,277)	$ (80,737)	$ 710,467
Common stock issued under employee plans			(7,736)			2,696	(5,040)
Stock-based compensation			3,032				3,032
Dividends on common stock ($0.20 per share)				(5,703)			(5,703)
Comprehensive income (loss):							
Foreign currency translation adjustments					(9,988)		
Pension liability, net					535		
Cash flow hedging gain, net					2,405		
Net income				5,927			
Total comprehensive loss							(1,121)
Balance at March 31, 2020	31,299	$ 313	$ 374,620	$ 471,068	$ (66,325)	$ (78,041)	$ 701,635
Common stock issued under employee plans			(1,150)			1,283	133
Stock-based compensation			3,555				3,555
Dividends on common stock ($0.20 per share)				(5,712)			(5,712)
Comprehensive income (loss):							
Foreign currency translation adjustments					4,581		
Pension liability, net					535		
Cash flow hedging loss, net					(2,429)		
Net loss				(27,400)			
Total comprehensive loss							(24,713)
Balance at June 30, 2020	31,299	$ 313	$ 377,025	$ 437,956	$ (63,638)	$ (76,758)	$ 674,898
Common stock issued under employee plans			562			893	1,455
Stock-based compensation			3,532				3,532
Dividends on common stock ($0.20 per share)				(5,720)			(5,720)
Comprehensive income (loss):							
Foreign currency translation adjustments					4,617		
Pension liability, net					535		
Cash flow hedging loss, net					(3,026)		
Net income				6,850			
Total comprehensive income							8,976
Balance at September 30, 2020	31,299	$ 313	$ 381,119	$ 439,086	$ (61,512)	$ (75,865)	$ 683,141

	Common Stock						
	Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Shareholders' Equity
Balance at December 31, 2018	31,299	$ 313	$ 341,738	$ 464,851	$ (55,737)	$ (88,895)	$ 662,270
Common stock issued under employee plans			(769)			2,517	1,748
Stock-based compensation			2,703				2,703
Dividends on common stock ($0.20 per share)				(5,643)			(5,643)
Convertible notes discount, net			39,145				39,145
Convertible notes hedge, net			(38,829)				(38,829)
Issuance of warrants			30,567				30,567
Comprehensive income (loss):							
Foreign currency translation adjustments					(578)		
Pension liability, net					547		
Cash flow hedging gain, net					106		
Net income				1,021			
Total comprehensive income							1,096
Balance at March 31, 2019	31,299	$ 313	$ 374,555	$ 460,229	$ (55,662)	$ (86,378)	$ 693,057
Common stock issued under employee plans			(1,144)			1,894	750
Stock-based compensation			3,108				3,108
Dividends on common stock ($0.20 per share)				(5,657)			(5,657)
Comprehensive income (loss):							
Foreign currency translation adjustments					1,108		
Pension liability, net					546		
Cash flow hedging loss, net					(1,598)		
Net income				5,695			
Total comprehensive income							5,751
Balance at June 30, 2019	31,299	$ 313	$ 376,519	$ 460,267	$ (55,606)	$ (84,484)	$ 697,009
Common stock issued under employee plans			(390)			2,307	1,917
Stock-based compensation			3,008				3,008
Dividends on common stock ($0.20 per share)				(5,673)			(5,673)
Comprehensive income (loss):							
Foreign currency translation adjustments					(4,770)		
Pension liability, net					546		
Cash flow hedging gain, net					1,915		
Net income				6,970			
Total comprehensive income							4,661
Balance at September 30, 2019	31,299	313	379,137	461,564	(57,915)	(82,177)	700,922

See notes to consolidated condensed financial statements.

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

	Nine Months Ended September 30,	
	2020	**2019**
Cash flows from operating activities:		
Net income (loss)	$ (14,623)	$ 13,686
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	13,617	14,225
Amortization of debt discount	7,239	6,038
Amortization of deferred debt issuance costs	2,697	2,535
Amortization	40,973	38,837
Stock-based compensation	10,119	8,819
Impairment charges	—	312
Deferred income taxes	(786)	(5,506)
Loss on early extinguishment of debt	—	300
Increase (decrease) in cash flows from changes in assets and liabilities:		
Accounts receivable	21,574	10,756
Inventories	(19,396)	(15,645)
Accounts payable	1,477	(10,104)
Accrued compensation and benefits	(8,864)	1,728
Other assets	(6,013)	(13,202)
Other liabilities	(3,628)	1,478
	59,009	40,571
Net cash provided by operating activities	44,386	54,257
Cash flows from investing activities:		
Proceeds from sale of a facility	3,227	—
Purchases of property, plant and equipment	(9,864)	(13,875)
Payments related to business and asset acquisitions, net of cash acquired	(3,852)	(364,928)
Net cash used in investing activities	(10,489)	(378,803)
Cash flows from financing activities:		
Payments on term loan	(9,938)	(151,000)
Proceeds from term loan	—	265,000
Payments on revolving line of credit	(142,000)	(435,000)
Proceeds from revolving line of credit	152,000	370,000
Proceeds from convertible notes	—	345,000
Payments related to contingent consideration	(2,071)	(5,687)
Payments related to debt issuance costs	(2,057)	(16,210)
Dividends paid on common stock	(17,099)	(16,927)
Purchases of convertible notes hedges	—	(51,198)
Proceeds from issuance of warrants	—	30,567
Other, net	(3,730)	3,310
Net cash provided by (used in) financing activities	(24,895)	337,855
Effect of exchange rate changes on cash and cash equivalents	740	(752)
Net increase in cash and cash equivalents	9,742	12,557
Cash and cash equivalents at beginning of period	25,856	17,511
Cash and cash equivalents at end of period	$ 35,598	$ 30,068
Non-cash investing and financing activities:		
Dividends payable	$ 5,720	$ 5,673

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 that provides surgical devices and equipment for minimally invasive procedures. The Company’s products are used by surgeons and physicians in a variety of specialties including orthopedics, general surgery, gynecology, neurosurgery, thoracic surgery 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. The information herein reflects all normal recurring material adjustments, which are, in the opinion of management, necessary to fairly present the results for the periods presented. The consolidated condensed financial statements herein consist of all wholly-owned domestic and foreign subsidiaries with all significant intercompany transactions eliminated. Results for the period ended September 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

The consolidated condensed financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2019 included in our Annual Report on Form 10-K.

Use of Estimates

Preparation of the consolidated condensed financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated condensed financial statements and the reported amounts of revenue and expenses during the reporting period.

Due to the COVID-19 pandemic, there has been uncertainty and disruption in the global economy and financial markets. We are not aware of any specific event or circumstance that would require an update to our estimates or judgments or a revision of the carrying value of our assets or liabilities as of October 29, 2020, the date of issuance of this Quarterly Report on Form 10-Q. These estimates may change, as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions.

Note 3 - Business Acquisition

On February 11, 2019 we acquired Buffalo Filter, LLC and all of the issued and outstanding common stock of Palmerton Holdings, Inc. from Filtration Group FGC LLC (the "Buffalo Filter Acquisition") for approximately $365 million in cash. Buffalo Filter develops, manufactures and markets smoke evacuation technologies that are complementary to our general surgery offering. The business combination was funded through a combination of cash on hand and long-term borrowings.

The unaudited pro forma information for the three and nine months ended September 30, 2019, assuming the Buffalo Filter Acquisition occurred as of January 1, 2018 are presented below. This information has been prepared for comparative purposes only and does not purport to be indicative of the results of operations which actually would have resulted had the Buffalo Filter Acquisition occurred on the dates indicated, or which may result in the future.

	Three Months Ended September 30,	Nine Months Ended September 30,
	2019	2019
Net sales	$ 233,590	$ 695,250
Net income	8,675	26,045

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

Acquisition related costs excluded from the determination of pro forma net income for the three months ended September 30, 2019 were $0.2 million in cost of goods sold and $1.5 million in selling and administrative expense and for the nine months ended September 30, 2019 were $1.3 million in cost of goods sold and $11.2 million in selling and administrative expense on the consolidated condensed statements of comprehensive income.

Net sales associated with Buffalo Filter of $13.9 million and $33.4 million have been recorded in the consolidated condensed statements of comprehensive income for the three and nine months ended September 30, 2019, respectively. It is impracticable to determine the earnings recorded in the consolidated condensed statements of comprehensive income for the three and nine months ended September 30, 2019 as these amounts are not separately measured.

In conjunction with the December 2019 acquisition of a distributor, we paid $3.8 million during the nine months ended September 30, 2020.

Note 4 - Revenues

The following tables present revenue disaggregated by primary geographic market where the products are sold, by product line and timing of revenue recognition:

	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019		
	Orthopedic Surgery	**General Surgery**	**Total**	**Orthopedic Surgery**	**General Surgery**	**Total**
Primary Geographic Markets						
United States	$ 38,913	$ 95,292	$ 134,205	$ 42,530	$ 85,652	$ 128,182
Asia Pacific	26,403	15,405	41,808	26,037	16,115	42,152
Europe, Middle East & Africa	23,104	17,584	40,688	24,692	14,139	38,831
Americas (excluding the United States)	13,767	7,367	21,134	17,069	7,356	24,425
Total sales from contracts with customers	$ 102,187	$ 135,648	$ 237,835	$ 110,328	$ 123,262	$ 233,590
Timing of Revenue Recognition						
Goods transferred at a point in time	$ 93,000	$ 134,745	$ 227,745	$ 101,454	$ 122,620	$ 224,074
Services transferred over time	9,187	903	10,090	8,874	642	9,516
Total sales from contracts with customers	$ 102,187	$ 135,648	$ 237,835	$ 110,328	$ 123,262	$ 233,590

	Nine Months Ended September 30, 2020						Nine Months Ended September 30, 2019					
	Orthopedic Surgery		General Surgery		Total		Orthopedic Surgery		General Surgery		Total	
Primary Geographic Markets												
United States	$	97,339	$	243,137	$	340,476	$	131,120	$	243,023	$	374,143
Europe, Middle East & Africa		62,726		50,345		113,071		86,199		45,826		132,025
Asia Pacific		66,737		34,211		100,948		74,313		39,217		113,530
Americas (excluding the United States)		35,152		19,984		55,136		47,890		22,644		70,534
Total sales from contracts with customers	$	261,954	$	347,677	$	609,631	$	339,522	$	350,710	$	690,232
Timing of Revenue Recognition												
Goods transferred at a point in time	$	237,224	$	345,068	$	582,292	$	312,964	$	348,972	$	661,936
Services transferred over time		24,730		2,609		27,339		26,558		1,738		28,296
Total sales from contracts with customers	$	261,954	$	347,677	$	609,631	$	339,522	$	350,710	$	690,232

Contract liability balances related to the sale of extended warranties to customers are as follows:

	September 30, 2020		December 31, 2019	
Contract liability	$	13,317	$	14,276

Revenue recognized during the nine months ended September 30, 2020 and September 30, 2019 from amounts included in contract liabilities at the beginning of the period were $7.6 million and $5.5 million, respectively. There were no material contract assets as of September 30, 2020 and December 31, 2019.

Note 5 – Comprehensive Income (loss)

Comprehensive income (loss) consists of the following:

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net income (loss)	$ 6,850	$ 6,970	$ (14,623)	$ 13,686
Other comprehensive income (loss):				
Foreign currency translation adjustment	4,617	(4,770)	(790)	(4,240)
Pension liability, net of income tax (income tax expense of $170 and $174 for the three months ended September 30, 2020 and 2019, respectively, and $510 and $521 for the nine months ended September 30, 2020 and 2019, respectively)	535	546	1,605	1,639
Cash flow hedging gain (loss), net of income tax (income tax expense (benefit) of $(964) and $610 for the three months ended September 30, 2020 and 2019, respectively, and $(972) and $135 for the nine months ended September 30, 2020 and 2019, respectively)	(3,026)	1,915	(3,050)	423
Comprehensive income (loss)	$ 8,976	$ 4,661	$ (16,858)	$ 11,508

Accumulated other comprehensive loss consists of the following:

	Cash Flow Hedging Gain (Loss)	Pension Liability	Cumulative Translation Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2019	$ 493	$ (31,691)	$ (28,079)	$ (59,277)
Other comprehensive income (loss) before reclassifications, net of tax	(1,916)	—	(790)	(2,706)
Amounts reclassified from accumulated other comprehensive income (loss) before tax[a]	(1,496)	2,115	—	619
Income tax	362	(510)	—	(148)
Net current-period other comprehensive income (loss)	(3,050)	1,605	(790)	(2,235)
Balance, September 30, 2020	$ (2,557)	$ (30,086)	$ (28,869)	$ (61,512)

	Cash Flow Hedging Gain (Loss)	Pension Liability	Cumulative Translation Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2018	$ 4,085	$ (31,718)	$ (28,104)	$ (55,737)
Other comprehensive income (loss) before reclassifications, net of tax	5,120	—	(4,240)	880
Amounts reclassified from accumulated other comprehensive income (loss) before tax[a]	(6,193)	2,160	—	(4,033)
Income tax	1,496	(521)	—	975
Net current-period other comprehensive income (loss)	423	1,639	(4,240)	(2,178)
Balance, September 30, 2019	$ 4,508	$ (30,079)	$ (32,344)	$ (57,915)

(a) The cash flow hedging gain (loss) and pension liability accumulated other comprehensive income (loss) components are included in sales or cost of sales and as a component of net periodic pension cost, respectively. Refer to Note 6 and Note 12, respectively, for further details.

Note 6 – 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 or cost of sales when the forecasted transaction occurs.

We also enter into forward contracts to exchange foreign currencies for United States dollars in order to hedge our currency transaction exposures on intercompany receivables designated 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 following table presents the notional contract amounts for forward contracts outstanding:

		As of	
	FASB ASC Topic 815 Designation	September 30, 2020	December 31, 2019
Forward exchange contracts	Cash flow hedge	$ 141,376	$ 156,818
Forward exchange contracts	Non-designated	41,074	33,867

The remaining time to maturity as of September 30, 2020 is within two years for hedge designated foreign exchange contracts and approximately one month for non-hedge designated forward exchange contracts.

Statement of comprehensive income (loss) presentation

Derivatives designated as cash flow hedges

Foreign exchange contracts designated as cash flow hedges had the following effects on accumulated other comprehensive income (loss) and net earnings on our consolidated condensed statements of comprehensive income (loss) and our consolidated condensed balance sheets:

	Amount of Gain (Loss) Recognized in AOCI		Consolidated Condensed Statements of Comprehensive Income (Loss)			Amount of Gain (Loss) Reclassified from AOCI	
	Three Months Ended September 30,						
				Total Amount of Line Item Presented			
Derivative Instrument	**2020**	**2019**	**Location of amount reclassified**	**2020**	**2019**	**2020**	**2019**
Foreign exchange contracts	$ (3,542)	$ 4,887	Net Sales	$ 237,835	$ 233,590	$ 663	$ 2,241
			Cost of Sales	104,137	103,479	(215)	120
Pre-tax gain (loss)	$ (3,542)	$ 4,887				$ 448	$ 2,361
Tax expense (benefit)	(856)	1,181				108	570
Net gain (loss)	$ (2,686)	$ 3,706				$ 340	$ 1,791

	Amount of Gain (Loss) Recognized in AOCI		Consolidated Condensed Statements of Comprehensive Income (Loss)			Amount of Gain (Loss) Reclassified from AOCI	
	Nine Months Ended September 30,						
				Total Amount of Line Item Presented			
Derivative Instrument	**2020**	**2019**	**Location of amount reclassified**	**2020**	**2019**	**2020**	**2019**
Foreign exchange contracts	$ (2,526)	$ 6,751	Net Sales	$ 609,631	$ 690,232	$ 2,206	$ 5,834
			Cost of Sales	284,845	307,492	(710)	359
Pre-tax gain (loss)	$ (2,526)	$ 6,751				$ 1,496	$ 6,193
Tax expense (benefit)	(610)	1,631				362	1,496
Net gain (loss)	$ (1,916)	$ 5,120				$ 1,134	$ 4,697

At September 30, 2020, $1.9 million of net unrealized losses on forward contracts accounted for as cash flow hedges, and included in accumulated other comprehensive loss, are expected to be recognized in earnings in the next twelve months.

Derivatives not designated as cash flow hedges

Net gains and losses from derivative instruments not accounted for as hedges and gains and losses on our intercompany receivables on our consolidated condensed statements of comprehensive income (loss) were:

Derivative Instrument	Location on Consolidated Condensed Statements of Comprehensive Income (Loss)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net gain (loss) on currency forward contracts	Selling and administrative expense	$ (682)	$ 138	$ (1,224)	$ (355)
Net gain (loss) on currency transaction exposures	Selling and administrative expense	$ 312	$ (368)	$ 143	$ (530)

Balance sheet presentation

We record these forward foreign exchange contracts at fair value. The following tables summarize the fair value for forward foreign exchange contracts outstanding at September 30, 2020 and December 31, 2019:

September 30, 2020	Location on Consolidated Condensed Balance Sheet	Asset Fair Value	Liabilities Fair Value	Net Fair Value
Derivatives designated as hedged instruments:				
Foreign exchange contracts	Other current liabilities	$ 529	$ (3,338)	$ (2,809)
Foreign exchange contracts	Other long-term liabilities	103	(948)	(845)
		$ 632	$ (4,286)	$ (3,654)
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	Other current liabilities	9	(158)	(149)
Total derivatives		$ 641	$ (4,444)	$ (3,803)

December 31, 2019	Location on Consolidated Condensed Balance Sheet	Asset Fair Value	Liabilities Fair Value	Net Fair Value
Derivatives designated as hedged instruments:				
Foreign exchange contracts	Prepaids and other current assets	$ 2,307	$ (1,341)	$ 966
Foreign exchange contracts	Other long-term liabilities	38	(353)	(315)
		$ 2,345	$ (1,694)	$ 651
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	Other current liabilities	22	(159)	(137)
Total derivatives		$ 2,367	$ (1,853)	$ 514

Our forward foreign exchange contracts are subject to a master netting agreement and qualify for netting in the consolidated condensed balance sheets.

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

Valuation Hierarchy. A valuation hierarchy was established for disclosure of the inputs to the valuations used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from or corroborated by observable market data through correlation. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. There have been no significant changes in the assumptions.

Valuation Techniques. Assets and liabilities carried at fair value and measured on a recurring basis as of September 30, 2020 consist of forward foreign exchange contracts. The Company values its forward foreign exchange contracts using quoted prices for similar assets. The most significant assumption is quoted currency rates. The value of the forward foreign exchange contract assets and liabilities were valued using Level 2 inputs and are listed in the table above.

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

Note 7 - Inventories

Inventories consist of the following:

	September 30, 2020	December 31, 2019
Raw materials	$ 62,604	$ 51,103
Work-in-process	18,944	15,142
Finished goods	101,120	98,371
Total	$ 182,668	$ 164,616

Note 8 – Earnings (Loss) Per Share

Basic earnings (loss) per share ("basic EPS") is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the reporting period. Diluted earnings (loss) per share ("diluted EPS") gives effect to all dilutive potential shares outstanding resulting from employee stock options, restricted stock units, performance share units and stock appreciation rights ("SARs") during the period.

The following table sets forth the computation of basic and diluted earnings (loss) per share for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	$ 6,850	$ 6,970	$ (14,623)	$ 13,686
Basic – weighted average shares outstanding	28,583	28,353	28,529	28,280
Effect of dilutive potential securities	843	1,439	—	1,074
Diluted – weighted average shares outstanding	29,426	29,792	28,529	29,354
Net income (loss) (per share)				
Basic	$ 0.24	$ 0.25	$ (0.51)	$ 0.48
Diluted	0.23	0.23	(0.51)	0.47

The shares used in the calculation of diluted EPS exclude options and SARs to purchase shares where the exercise price was greater than the average market price of common shares for the period and the effect of the inclusion would be anti-dilutive. Such shares aggregated approximately 1.6 million for the three months ended September 30, 2020 and 0.8 million and 0.7 million for the three and nine months ended September 30, 2019, respectively. As the Company was in a net loss position for the nine months ended September 30, 2020, there were no anti-dilutive shares. Our 2.625% convertible notes due in 2024 (the "Notes") are convertible under certain circumstances, as defined in the indenture, into a combination of cash and CONMED common stock. The calculation of diluted EPS would include potential diluted shares upon conversion of the Notes when the average market price per share of our common stock for the period, is greater than the conversion price of the Notes of $88.80. During the three and nine months ended September 30, 2020 and nine months ended September 30, 2019, our average share price had not exceeded the conversion price of the Notes; therefore, under the net share settlement method, there were no potential shares issuable under the Notes to be used in the calculation of diluted EPS. During the three months ended September 30, 2019, our average share price exceeded the conversion price of the Notes and we included 0.2 million shares assumed to be issued if the Notes were converted in our diluted share count. We intend to settle in cash the principal outstanding and use the treasury stock method when calculating their potential dilutive effect, if any. We have entered into convertible notes hedge transactions to increase the effective conversion price of the Notes to $114.92. However, our convertible notes hedges are not included when calculating potential dilutive shares since their effect is always anti-dilutive.

Note 9 – Goodwill and Other Intangible Assets

The changes in the net carrying amount of goodwill for the nine months ended September 30, 2020 are as follows:

Balance as of December 31, 2019	$ 618,042
Goodwill adjustment resulting from business acquisition	(1,009)
Foreign currency translation	360
Balance as of September 30, 2020	$ 617,393

Assets and liabilities of acquired businesses are recorded at their estimated fair values as of the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. During the nine months ended September 30, 2020, the Company recorded a measurement period adjustment related to a prior business combination.

Other intangible assets consist of the following:

	September 30, 2020			December 31, 2019	
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets with definite lives:					
Customer and distributor relationships	24	$ 342,523	$ (129,706)	$ 342,568	$ (115,311)
Sales representation, marketing and promotional rights	25	149,376	(52,500)	149,376	(48,000)
Developed technology	16	106,604	(18,071)	106,604	(13,171)
Patents and other intangible assets	15	73,181	(48,267)	70,646	(46,456)
Intangible assets with indefinite lives:					
Trademarks and tradenames		86,544	—	86,544	—
	22	$ 758,228	$ (248,544)	$ 755,738	$ (222,938)

Customer and distributor relationships, trademarks and tradenames, developed technology and patents and other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. Sales representation, marketing and promotional rights represent intangible assets created under our agreement with Musculoskeletal Transplant Foundation (“MTF”).

Amortization expense related to intangible assets which are subject to amortization totaled $8.6 million and $8.4 million in the three months ended September 30, 2020 and 2019, respectively, and $25.6 million and $24.1 million in the nine months ended September 30, 2020 and 2019, respectively, and is included as a reduction of revenue (for amortization related to our sales representation, marketing and promotional rights) and in selling and administrative expense (for all other intangible assets) in the consolidated condensed statements of comprehensive income (loss). Included in developed technology is $6.0 million of earn-out consideration that is considered probable as of September 30, 2020 associated with a prior asset acquisition. This is recorded in other current liabilities at September 30, 2020.

The estimated intangible asset amortization expense remaining for the year ending December 31, 2020 and for each of the five succeeding years is as follows:

	Amortization included in expense	Amortization recorded as a reduction of revenue	Total
Remaining, 2020	$ 6,970	$ 1,500	$ 8,470
2021	27,523	6,000	33,523
2022	26,369	6,000	32,369
2023	25,588	6,000	31,588
2024	24,777	6,000	30,777
2025	25,023	6,000	31,023

Note 10 - Long-Term Debt

Long-term debt consists of the following:

	September 30, 2020	December 31, 2019
Revolving line of credit	$ 230,000	$ 220,000
Term loan, net of deferred debt issuance costs of $1,562 and $1,528 in 2020 and 2019, respectively	243,563	253,535
2.625% convertible notes, net of deferred debt issuance costs of $5,920 and $7,252 in 2020 and 2019, respectively, and unamortized discount of $36,073 and $43,312 in 2020 and 2019, respectively	303,007	294,436
Financing leases	686	836
Total debt	777,256	768,807
Less: Current portion	16,805	13,596
Total long-term debt	$ 760,451	$ 755,211

On February 7, 2019 we entered into a sixth amended and restated senior credit agreement consisting of: (a) a $265.0 million term loan facility and (b) a $585.0 million revolving credit facility. The revolving credit facility will terminate and the loans outstanding under the term loan facility will expire on the earlier of (i) February 7, 2024 or (ii) 91 days prior to the earliest scheduled maturity date of the 2.625% convertible notes due in 2024 described below, (if, as of such date, more than $150.0 million in aggregate principal amount of such convertible notes (or any refinancing thereof) remains outstanding). The term loan facility is payable in quarterly installments increasing over the term of the facility. Proceeds from the term loan facility and borrowings under the revolving credit facility were used to repay the then existing senior credit agreement and in part to finance the acquisition of Buffalo Filter. On April 17, 2020, we amended our sixth amended and restated senior credit agreement to suspend our required leverage ratios for up to four quarters as a result of the potential impact from the COVID-19 pandemic (as further described in Note 17). Under the terms of the amendment, there are certain minimum liquidity and fixed charge coverage ratio requirements. Interest rates are also adjusted so that the applicable margin for base rate loans is 2.50% per annum and for Eurocurrency rate loans is 3.50% per annum, and the applicable commitment fee rate for the revolving credit facility is 0.50%. Following the suspension period, the applicable margin will depend upon CONMED's consolidated senior secured leverage ratio, using the pricing grid set forth in the amendment. Interest rates were at LIBOR (subject to 1.00% floor) plus an interest rate margin of 3.50% (4.50% at September 30, 2020).

There were $245.1 million in borrowings outstanding on the term loan facility as of September 30, 2020. There were $230.0 million in borrowings outstanding under the revolving credit facility as of September 30, 2020. Our available borrowings on the revolving credit facility at September 30, 2020 were $352.5 million with approximately $2.5 million of the facility set aside for outstanding letters of credit.

The sixth amended and restated senior credit agreement is collateralized by substantially all of our personal property and assets. The sixth amended and restated senior credit agreement contains covenants and restrictions which, among other things, require the maintenance of certain financial ratios and restrict dividend payments and the incurrence of certain indebtedness and other activities, including acquisitions and dispositions. We were in full compliance with these covenants and restrictions as of September 30, 2020. We are also required, under certain circumstances, to make mandatory prepayments from net cash proceeds from any issuance of equity and asset sales.

On January 29, 2019, we issued $345.0 million in 2.625% convertible notes due in 2024 (the "Notes"). Interest is payable semi-annually in arrears on February 1 and August 1 of each year, commencing August 1, 2019. The Notes will mature on February 1, 2024, unless earlier repurchased or converted. The Notes represent subordinated unsecured obligations and are convertible under certain circumstances, as defined in the indenture, into a combination of cash and CONMED common stock. The Notes may be converted at an initial conversion rate of 11.2608 shares of our common stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $88.80 per share of common stock). Holders of the Notes may convert the Notes at their option at any time on or after November 1, 2023 through the second scheduled trading day preceding the maturity date. Holders of the Notes will also have the right to convert the Notes prior to November 1, 2023, but only upon the occurrence of specified events. The conversion rate is subject to anti-dilution adjustments if certain events occur. A portion of the net proceeds from the offering of the Notes were used as part of the financing for the Buffalo Filter acquisition and $21.0 million were used to pay the cost of certain convertible notes hedge transactions as further described below.

Our effective borrowing rate for nonconvertible debt at the time of issuance of the Notes was estimated to be 6.14%, which resulted in $51.6 million of the $345.0 million aggregate principal amount of Notes issued, or $39.1 million after taxes, being attributable to equity. For the three months ended September 30, 2020 and 2019, we have recorded interest expense related to the amortization of debt discount on the Notes of $2.4 million and $2.3 million, respectively, and for the nine months ended September 30, 2020 and 2019, we have recorded interest expense related to the amortization of debt discount on the Notes of $7.2 million and $6.0 million, respectively, at the effective interest rate of 6.14%. The debt discount on the Notes is being amortized through February 2024. For both the three months ended September 30, 2020 and 2019, we have recorded interest expense on the Notes of $2.3 million and for the nine months ended September 30, 2020 and 2019, we have recorded interest expense on the Notes of $6.8 million and $6.0 million, respectively, at the contractual coupon rate of 2.625%.

In connection with the offering of the Notes, we entered into convertible note hedge transactions with a number of financial institutions (each, an "option counterparty"). The convertible note hedge transactions cover, subject to anti-dilution adjustments substantially similar to those applicable to the Notes, the number of shares of our common stock underlying the Notes. Concurrently with entering into the convertible note hedge transactions, we also entered into separate warrant transactions with each option counterparty whereby we sold to such option counterparty warrants to purchase, subject to customary anti-dilution adjustments, the same number of shares of our common stock.

The convertible note hedge transactions are expected generally to reduce the potential dilution upon conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be, in the event that the market price per share of our common stock, as measured under the terms of the convertible note hedge transactions, is greater than the strike price ($114.92) of the convertible note hedge transactions, which initially corresponds to the conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes. If, however, the market price per share of our common stock, as measured under the terms of the warrant transactions, exceeds the strike price of the warrants, there would nevertheless be dilution to the extent that such market price exceeds the strike price of the warrants.

The scheduled maturities of long-term debt outstanding at September 30, 2020 are as follows:

Remaining 2020	$	3,312
2021		18,219
2022		24,844
2023		428,750
2024		345,000

Note 11 – Guarantees

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

Changes in the liability for standard warranties for the nine months ended September 30, are as follows:

	2020	2019
Balance as of January 1,	$ 2,186	$ 1,585
Provision for warranties	616	1,495
Claims made	(932)	(821)
Balance as of September 30,	$ 1,870	$ 2,259

Costs associated with extended warranty repairs are recorded as incurred and amounted to $4.4 million and $4.0 million for the nine months ended September 30, 2020 and 2019, respectively.

Note 12 – Pension Plan

Net periodic pension cost consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Service cost	$ 179	$ 253	$ 537	$ 759
Interest cost on projected benefit obligation	639	782	1,917	2,346
Expected return on plan assets	(1,255)	(1,181)	(3,765)	(3,543)
Net amortization and deferral	705	720	2,115	2,160
Net periodic pension cost	$ 268	$ 574	$ 804	$ 1,722

We do not expect to make any pension contributions during 2020. Non-service cost of $0.1 million and $0.3 million for the three months ended September 30, 2020 and 2019, respectively, and $0.3 million and $1.0 million for the nine months ended September 30, 2020 and 2019, respectively, are included in other expense in the consolidated condensed statements of comprehensive income (loss).

Note 13 – Acquisition and Other Expense

Acquisition and other expense consist of the following, which are included in cost of sales, selling and administrative expense or other expense depending on the nature of the charge:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Plant underutilization costs	$ —	$ —	$ 6,586	$ —
Product rationalization costs - inventory	—	—	2,169	—
Restructuring costs	—	—	1,087	—
Manufacturing consolidation costs	606	1,430	3,993	1,430
Acquisition and integration costs	796	171	2,253	1,335
Acquisition and other expense included in cost of sales	$ 1,402	$ 1,601	$ 16,088	$ 2,765
Restructuring and related costs	$ 1,009	$ —	$ 3,133	$ —
Product rationalization costs - field inventory	—	—	2,095	—
Acquisition and integration costs	—	1,490	1,192	11,196
Acquisition and other expense included in selling and administrative expense	$ 1,009	$ 1,490	$ 6,420	$ 11,196
Debt refinancing costs included in other expense	$ —	$ —	$ —	$ 3,904

During the nine months ended September 30, 2020, we recorded a $6.6 million charge to cost of sales related to plant underutilization due to abnormally low production as a result of decreased sales caused by the COVID-19 pandemic.

During nine months ended September 30, 2020, we performed an analysis of our product lines and determined certain catalog numbers, principally related to capital equipment, would be discontinued and consolidated into existing product offerings. We consequently recorded a $2.2 million charge to cost of sales to write-off inventory of the discontinued products.

In addition, we incurred $2.1 million in costs related to the write-off of field inventory used for customer demonstration and evaluation of the discontinued products which we charged to selling and administrative expense.

During the nine months ended September 30, 2020, we incurred $1.1 million in restructuring costs related to a voluntary separation arrangement with employees as a result of the COVID-19 pandemic which were charged to cost of sales based on the job function of the affected employees. Substantially all of the costs associated with the voluntary separation arrangement were paid during the third quarter.

During the three and nine months ended September 30, 2020, we incurred $0.6 million and $4.0 million, respectively, in costs related to the consolidation of certain manufacturing operations which were charged to cost of sales. These costs related to winding down operations at certain locations and moving production lines to other facilities. During the three and nine months ended September 30, 2019, we incurred $1.4 million in costs related to the consolidation of certain manufacturing operations. These costs mainly related to severance and were charged to cost of sales.

During the three and nine months ended September 30, 2020, we recognized costs for inventory step-up adjustments and other costs related to a previous acquisition of $0.8 million and $2.3 million, respectively. During the three and nine months ended September 30, 2019, we incurred costs of $0.2 million and $1.3 million, respectively, for inventory adjustments associated with the acquisition of Buffalo Filter as further described in Note 3. These costs were charged to cost of sales.

During the three and nine months ended September 30, 2020, we recorded charges of $1.0 million and $2.3 million respectively, related to the restructuring of our Orthopedic sales force which was charged to selling and administrative expense. The charges for Orthopedic sales force restructuring consist primarily of termination payments to distributors made in exchange for ongoing assistance to transition to employee-based sales representatives.

During the nine months ended September 30, 2020, we recorded $0.8 million in restructuring charges principally related to a voluntary separation arrangement with employees as a result of the COVID-19 pandemic which were charged to selling and administrative expense based on the nature of the costs and function of the affected employees. Substantially all of the costs associated with the voluntary separation arrangement were paid during the third quarter.

During the nine months ended September 30, 2020, we incurred $1.2 million in severance and integration costs mainly related to the Buffalo Filter acquisition. During the three and nine months ended September 30, 2019, we incurred $1.5 million and $11.2 million, respectively, in costs associated with the acquisition of Buffalo Filter as further described in Note 3. These costs include investment banking fees in the first quarter of 2019, and, consulting fees, legal fees, severance and integration related costs in the three and nine months ended September 30, 2019. These costs were included in selling and administrative expense.

During the nine months ended September 30, 2019, we incurred a $3.6 million charge related to commitment fees paid to certain of our lenders, which provided a financing commitment for the Buffalo Filter acquisition and recorded a loss on the early extinguishment of debt of $0.3 million in conjunction with the sixth amended and restated senior credit agreement.

During the third quarter of 2020, we sold a vacant facility for $3.2 million that was classified as an asset held for sale at the end of the second quarter of 2020.

Note 14 — Business Segment

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Orthopedic surgery	$ 102,187	$ 110,328	$ 261,954	$ 339,522
General surgery	135,648	123,262	347,677	350,710
Consolidated net sales	$ 237,835	$ 233,590	$ 609,631	$ 690,232

Note 15 – Legal Proceedings

From time to time, the Company may receive an information request, subpoena or warrant from a government agency such as the Securities and Exchange Commission, Department of Justice, Equal Employment Opportunity Commission, the Occupational Safety and Health Administration, the United States Food and Drug Administration, the Department of Labor, the Treasury Department or other federal and state agencies or foreign governments or government agencies. These information requests, subpoenas or warrants may or may not be routine inquiries, or may begin as routine inquiries and over time develop into enforcement actions of various types. Likewise, if we receive reports of alleged misconduct from employees and third parties, we investigate as appropriate.

Manufacturers of medical devices have been the subject of various enforcement actions relating to interactions with health care providers domestically or internationally whereby companies are claimed to have provided health care providers with inappropriate incentives to purchase their products. Similarly, the Foreign Corrupt Practices Act ("FCPA") imposes obligations on manufacturers with respect to interactions with health care providers who may be considered government officials based on their affiliation with public hospitals. The FCPA also requires publicly listed manufacturers to maintain accurate books and records, and maintain internal accounting controls sufficient to provide assurance that transactions are accurately recorded, lawful and in accordance with management's authorization. The FCPA poses unique challenges both because manufacturers operate in foreign cultures in which conduct illegal under the FCPA may not be illegal in local jurisdictions, and because, in some cases, a United States manufacturer may face risks under the FCPA based on the conduct of third parties over whom the manufacturer may not have complete control. While CONMED has not experienced any material enforcement action to date, there can be no assurance that the Company will not be subject to a material enforcement action in the future, or that the Company will not incur costs including, in the form of fees for lawyers and other consultants, that are material to the Company's results of operations in the course of responding to a future inquiry or investigation.

Manufacturers of medical products may face exposure to significant product liability claims, as well as patent infringement and other claims incurred in the ordinary course of business. To date, we have not experienced any claims that have been material to our financial statements or financial condition, but any such claims arising in the future could have a material adverse effect on our business, results of operations or cash flows. We currently maintain commercial product liability insurance of $30 million per incident and $30 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. Likewise, the operations of our suppliers and sterilizers are subject to similar environmental laws and regulations. In some jurisdictions, environmental requirements may be expected to become more stringent in the future. In the United States, certain environmental laws can impose liability for the entire cost of site restoration upon each of the parties that may have contributed to conditions at the site regardless of fault or the lawfulness of the party's activities. While we do not believe that the present costs of environmental compliance and remediation are material, there can be no assurance that future compliance or remedial obligations would not have a material adverse effect on our financial condition, results of operations or cash flows.

In 2014, the Company acquired EndoDynamix, Inc. The agreement governing the terms of the acquisition provides that, if various conditions are met, certain contingent payments relating to the first commercial sale of the products (the milestone payment), as well as royalties based on sales (the revenue based payments), are due to the seller. In 2016, we notified the seller that there was a need to redesign the product, and that, as a consequence, the first commercial sale had been delayed. Consequently, the payment of contingent milestone and revenue-based payments were delayed. On January 18, 2017, the seller provided notice ("the Notice") seeking $12.7 million, which essentially represents the seller's view as to the sum of the projected contingent milestone and revenue-based payments on an accelerated basis. CONMED responded to the Notice denying that there was any basis for acceleration of the payments due under the acquisition agreement. On February 22, 2017, the representative of the former shareholders of EndoDynamix filed a complaint in Delaware Chancery Court claiming breach of contract with respect to the duty to commercialize the product and seeking the contingent payments on an accelerated basis. We believe that there was a substantive contractual basis to support the Company's decision to redesign the product, such that there was no legitimate basis for seeking the acceleration of the contingent payments at that time. In the third quarter of 2018, the Company decided to halt the development of the EndoDynamix clip applier. We previously recorded a charge to write off assets and released a previously accrued contingent consideration liability. A non-jury trial is now scheduled to take place in the Delaware Chancery Court in December 2020. The Company has not recorded any expense related to potential damages in connection with this matter because the Company does not believe any potential loss is probable. We expect to defend the claims asserted by the sellers of EndoDynamix, although there can be no assurance that we will prevail in the trial and/or any resulting appeals.

On June 17, 2020, our Seoul, South Korea Office was served with a search warrant by the Incheon Customs Office ("ICO") as part of what we believe to be an industry-wide criminal investigation concerning alleged manipulation of transfer pricing and maximum reimbursement pricing. We understand that the period under investigation with respect to CONMED currently relates to 2016-2019, although this could change as the investigation develops over time. CONMED is cooperating with the investigation, which we believe is in its early stages. The ICO has previously audited the transfer pricing applied to the majority of our imports into Korea, without any resulting material adjustments. We believe our transfer pricing was appropriate, on an aggregate basis, and we intend to vigorously defend our position in the investigation, although there can be no assurance with respect to the outcome of the investigation, or the related costs, given that the investigation is in a relatively early stage.

We record reserves sufficient to cover probable and estimable losses associated with any such pending claims. We do not expect that the resolution of any pending claims, investigations or reports of alleged misconduct 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, investigations or reports of misconduct, 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.

Note 16 – New Accounting Pronouncements

Recently Adopted Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13 Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, along with subsequent amendments issued in 2019. This ASU requires instruments measured at amortized cost, including accounts receivable, to be presented at the net amount expected to be collected. The new model requires an entity to estimate credit losses based on historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. This ASU is effective for fiscal years beginning after December 31, 2019 and the Company adopted the new standard on January 1, 2020. We adopted this ASU by applying historical loss rates to our accounts receivable aging schedule to estimate expected credit losses. We further adjusted expected credit losses for specifically identified and forecasted credit losses. This update did not have a material impact on our net income (loss), earnings (loss) per share or cash flows.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements on fair value measurements. This ASU is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. We adopted this update as of January 1, 2020 and it did not have a material impact on our net income (loss), earnings (loss) per share or cash flows.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which results in the removal of certain exceptions to the general principles of ASC 740 and simplifies other aspects of the accounting for income taxes. This ASU is effective for fiscal years beginning after December 15, 2020 and early adoption is permitted in any interim period. We early adopted this new guidance effective April 1, 2020 and it did not have a material impact on the consolidated financial statements.

Recently Issued Accounting Standards, Not Yet Adopted

In August 2018, the FASB issued ASU 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Topic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans, which modifies the disclosure requirements for defined benefit pension plans and other postretirement plans. This ASU is effective for fiscal years ending after December 15, 2020 and early adoption is permitted. The Company will include the required disclosures in the 2020 year-end consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional guidance if certain criteria are met for entities that have contracts, hedging relationships, and other transactions that reference LIBOR or other reference rates expected to be discontinued as a result of reference rate reform. This ASU is effective as of March 12, 2020 through December 31, 2022. The Company has not adopted the ASU as of September 30, 2020, however will continue to monitor the impact of reference rates and will elect to apply this guidance in our consolidated financial statements in the event that we are impacted by reference rate reform.

In August 2020, the FASB issued ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity, which simplifies the accounting for convertible instruments by removing certain separation models requiring separate accounting for embedded conversion features which will result in more convertible debt instruments accounted for as a single liability. The ASU eliminates certain settlement conditions that are required for equity classification to qualify for the derivative scope exception. The ASU addresses how convertible instruments are accounted for in the calculation of diluted earnings per share by using the if-converted method. The ASU is effective for fiscal years beginning after December 15, 2021, with early adoption permitted no earlier than fiscal years beginning after December 15, 2020. The Company is currently assessing the impact of this guidance on our consolidated financial statements.

Note 17 - COVID-19

We experienced lower sales in the first and second quarters of 2020 compared to 2019 as a result of the emergence of the COVID-19 virus, which was first identified in Wuhan, China in December 2019 and then spread throughout Asia before emerging and becoming a pandemic in the United States, Europe and elsewhere. Our sales were negatively impacted first in the Asia Pacific geography and later in the United States, and the rest of the world as temporary closures occurred and hospitals and surgery centers postponed many non-urgent surgical procedures in order to minimize the risk of infection with COVID-19.

In compliance with various governmental orders, beginning in March we restricted access to our main facilities to only essential personnel required to be onsite (primarily manufacturing and distribution) with substantially all other personnel working remotely. As a medical device manufacturer, we were designated as an "essential business" by the relevant authorities in New York, Florida, Georgia and Mexico and have maintained production or distribution at our facilities in these locations. We returned to year over year sales growth in the third quarter of 2020 as temporary closures were lifted in jurisdictions in the United States and around the world and hospitals and surgery centers resumed many surgical procedures.

Because of the ongoing uncertainty of the prevalence and impact of COVID-19 on our business, on April 17, 2020, we amended our sixth amended and restated senior credit agreement to suspend our required leverage ratios for up to four quarters. Under the terms of the amendment, we have certain minimum liquidity and fixed charge coverage ratio requirements with which we were in full compliance as of September 30, 2020. We are forecasting that sales and earnings will be sufficient to remain in compliance with the liquidity and fixed charge coverage ratio requirements under the terms of the amendment and we will have sufficient availability under our revolving credit facility to meet our liquidity needs. We have undertaken steps to reduce our spending and expenses in light of the impact of COVID-19 on revenue and earnings. While we expect that we will be well positioned when surgeries begin to return to their pre-pandemic levels, we are unable to predict with certainty how long the COVID-19 pandemic will last, or resurgence thereof, or how severe its economic impact will be. Even after the COVID-19 pandemic and government responses thereto have subsided, residual economic and other effects may have an impact on the demand for post-pandemic surgery levels that are difficult to predict. If the downturn is more severe and prolonged than we currently expect, we may need to take further steps to reduce our costs, or to refinance our debt.

Additionally, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020 to provide economic relief in the early wake of the COVID-19 pandemic. The CARES Act includes many measures to assist companies, including temporary changes to income and non-income-based tax laws. Income tax relief includes temporary favorable changes to net operating loss and interest expense annual deduction limitations. These provisions are not expected to result in any material impact to our financial results.

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, 2019 and the following, among others:

- general economic and business conditions;
- compliance with and changes in regulatory requirements;
- COVID-19 global pandemic poses significant risks to our business, financial condition and results of operations, which may be heightened if the pandemic, and various government responses to it, continue for an extended period of time;
- environmental compliance risks, including lack of availability of sterilization with Ethylene Oxide ("EtO") or other compliance costs associated with the use of EtO;
- the possibility that United States or foreign regulatory and/or administrative agencies may initiate enforcement actions against us or our distributors;
- competition;
- changes in customer preferences;
- changes in technology;
- the introduction and acceptance of new products;
- the availability and cost of materials;
- cyclical customer purchasing patterns due to budgetary and other constraints;
- quality of our management and business abilities and the judgment of our personnel;
- the availability, terms and deployment of capital;
- future levels of indebtedness and capital spending;
- changes in foreign exchange and interest rates;
- the ability to evaluate, finance and integrate acquired businesses, products and companies;
- changes in business strategy;
- the risk of an information security breach, including a cybersecurity breach;
- the risk of a lack of allograft tissues due to reduced donations of such tissues or due to tissues not meeting the appropriate high standards for screening and/or processing of such tissues;
- the ability to defend and enforce intellectual property, including the risks related to theft or compromise of intellectual property in connection with our international operations;
- the risk of patent, product and other litigation, as well as the cost associated with such litigation; and
- trade protection measures, tariffs and other border taxes, and import or export licensing requirements.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" below and "Risk Factors" and "Business" in our Annual Report on Form 10-K for the year-ended December 31, 2019 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 that provides surgical devices and equipment for minimally invasive procedures. The Company's products are used by surgeons and physicians in a variety of specialties including orthopedics, general surgery, gynecology, neurosurgery, thoracic surgery and gastroenterology.

Our product lines consist of orthopedic surgery and general surgery. Orthopedic surgery consists of sports medicine instrumentation and small bone, large bone and specialty powered surgical instruments as well as, imaging systems for use in minimally invasive surgery procedures including 2DHD and 3DHD vision technologies and service fees related to the promotion and marketing of sports medicine allograft tissue. General surgery consists of a complete line of endo-mechanical instrumentation for minimally invasive laparoscopic and gastrointestinal procedures, a line of cardiac monitoring products as well as electrosurgical generators and related instruments. These product lines as a percentage of consolidated net sales are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Orthopedic surgery	43 %	47 %	43 %	49 %
General surgery	57 %	53 %	57 %	51 %
Consolidated net sales	100 %	100 %	100 %	100 %

A significant amount of our products are used in surgical procedures with approximately 82% of our revenues derived from the sale of single-use products. Our capital equipment offerings also facilitate the ongoing sale of related single-use products and accessories, thus providing us with a recurring revenue stream. We manufacture substantially all of our products in facilities located in the United States and Mexico. We market our products both domestically and internationally directly to customers and through distributors. International sales approximated 44% and 46% during the nine months ended September 30, 2020 and 2019, respectively.

Business Environment

Our business has been significantly impacted by the emergence of the COVID-19 virus, with the Company experiencing lower sales in the first and second quarters of 2020 compared to 2019, first in the Asia Pacific geography and later in the United States, Europe and elsewhere as temporary closures occurred and hospitals and surgery centers postponed many non-urgent surgical procedures in order to minimize the risk of infection. In compliance with various governmental orders, beginning in March we restricted access to our main facilities to only essential personnel required to be onsite while maintaining production and distribution. We are uncertain as to the outlook for sales growth for the remainder of the year and 2021 until such time as an effective vaccine is generally available. See additional discussion in Note 10 and Note 17 to the consolidated condensed financial statements, as well as in Liquidity and Capital Resources below.

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, 2019 describes the significant accounting policies used in preparation of the Consolidated Financial Statements. On an ongoing basis, we evaluate the critical accounting policies used to prepare our consolidated financial statements, including, but not limited to, those related to goodwill and intangible assets.

Consolidated Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	43.8	44.3	46.7	44.5
Gross profit	56.2	55.7	53.3	55.5
Selling and administrative expense	39.7	42.0	45.1	43.2
Research and development expense	4.2	4.7	4.7	4.8
Income from operations	12.4	9.0	3.5	7.4
Interest expense	5.0	4.8	5.4	4.7
Other expense	—	0.1	—	0.7
Income (loss) before income taxes	7.3	4.0	(2.0)	2.0
Income tax expense	4.4	1.1	0.4	—
Net income (loss)	2.9 %	3.0 %	(2.4)%	2.0 %

Net Sales

The following table presents net sales by product line for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended				
			% Change		
	2020	2019	As Reported	Impact of Foreign Currency	Constant Currency
Orthopedic surgery	$ 102.2	$ 110.3	-7.4 %	0.3 %	-7.1 %
General surgery	135.6	123.3	10.0 %	-0.2 %	9.8 %
Net sales	$ 237.8	$ 233.6	1.8 %	— %	1.8 %
Single-use products	$ 190.9	$ 184.4	3.6 %	— %	3.6 %
Capital products	46.9	49.2	-4.7 %	-0.2 %	-4.9 %
Net sales	$ 237.8	$ 233.6	1.8 %	— %	1.8 %

	Nine Months Ended				
			% Change		
	2020	2019	As Reported	Impact of Foreign Currency	Constant Currency
Orthopedic surgery	$ 261.9	$ 339.5	-22.8 %	1.2 %	-21.6 %
General surgery	347.7	350.7	-0.9 %	0.4 %	-0.5 %
Net sales	$ 609.6	$ 690.2	-11.7 %	0.9 %	-10.8 %
Single-use products	$ 497.1	$ 547.0	-9.1 %	0.9 %	-8.2 %
Capital products	112.5	143.2	-21.5 %	0.7 %	-20.8 %
Net sales	$ 609.6	$ 690.2	-11.7 %	0.9 %	-10.8 %

Net sales increased 1.8% and decreased 11.7% in the three and nine months ended September 30, 2020, respectively. The increase during the three months ended September 30, 2020 compared to the same period a year ago was driven by strong general surgery sales. Net sales decreased across all product lines during the nine months ended September 30, 2020 as a result of the COVID-19 pandemic.

- Orthopedic surgery sales decreased 7.4% and 22.8% in the three and nine months ended September 30, 2020, respectively, primarily driven by continued deferral of non-urgent surgeries as a result of the COVID-19 pandemic. A significant portion of this decline was driven by a reduction in capital equipment purchases as hospitals and surgery centers conserve cash and defer capital outlays.

- General surgery sales increased 10.0% and decreased 0.9% in the three and nine months ended September 30, 2020, respectively. We believe the deferral of non-urgent procedures has had a lesser impact on our general surgery lines as a result of the nature of the products and procedures in which they are used and this belief was borne out in the third quarter by a resumption in growth in these lines, including continued growth in our Buffalo Filter and AirSeal products. The decrease during the nine months ended September 30, 2020 was a result of the deferral of non-urgent surgeries during the first half of the year as a result of the COVID-19 pandemic.

Cost of Sales

Cost of sales increased to $104.1 million in the three months ended September 30, 2020 as compared to $103.5 million in the three months ended September 30, 2019 and decreased to $284.8 million in the nine months ended September 30, 2020 as compared to $307.5 million in the nine months ended September 30, 2019. Gross profit margins increased 50 basis points to 56.2% in the three months ended September 30, 2020 as compared to 55.7% in the three months ended September 30, 2019 and decreased 220 basis points to 53.3% in the nine months ended September 30, 2020 as compared to 55.5% in the nine months ended September 30, 2019.

The increase in gross profit margin of 50 basis points in the three months ended September 30, 2020 was primarily due to lower production costs as well as favorable product and channel mix.

The decrease of 220 basis points in gross margin in the nine months ended September 30, 2020 compared to the same period a year ago was primarily driven by a decline in net sales as well as the following:

- $6.6 million in costs related to plant underutilization due to abnormally low production as a result of decreased sales caused by the COVID-19 pandemic;
- $2.2 million in costs related to product rationalization;
- $1.1 million in restructuring costs related to a voluntary separation arrangement as a result of the COVID-19 pandemic; and
- $4.0 million in costs related to the consolidation of certain manufacturing operations related to winding down operations at certain locations and moving production lines to other facilities.

Refer to Note 13 for further details on the above items.

Selling and Administrative Expense

Selling and administrative expense decreased to $94.4 million in the three months ended September 30, 2020 as compared to $98.2 million in the three months ended September 30, 2019 and decreased to $274.7 million in the nine months ended September 30, 2020 as compared to $298.1 million in the nine months ended September 30, 2019. Selling and administrative expense as a percentage of net sales decreased to 39.7% in the three months ended September 30, 2020 compared to 42.0% in the three months ended September 30, 2019 and increased to 45.1% in the nine months ended September 30, 2020 compared to 43.2% in the nine months ended September 30, 2019.

The decrease in selling and administrative expense for the three and nine months ended September 30, 2020 was driven mainly by actions taken to reduce expenses in response to the COVID-19 pandemic. We experienced reduced travel due to safety measures put in place and reduced trade show costs as shows were cancelled during the year. We also had lower commission costs during the nine months ended September 30, 2020 as sales declined compared to the same period a year ago. In addition, during the nine months ended September 30, 2019, we incurred $11.2 million in acquisition and integration costs relating to the Buffalo Filter acquisition compared to $3.1 million in severance costs related to a voluntary termination program and costs associated with the restructuring of our Orthopedic sales force and a $2.1 million write-off of field inventory used for customer demonstration and evaluation of products resulting from the product rationalization initiative discussed above during the nine months ended September 30, 2020. Refer to Note 13 for further details.

Research and Development Expense

Research and development expense decreased to $9.9 million in the three months ended September 30, 2020 as compared to $11.0 million in the three months ended September 30, 2019. As a percentage of net sales, research and development expense decreased 50 basis points to 4.2% in the three months ended September 30, 2020 as compared to 4.7% in the three months ended September 30, 2019. Research and development expense decreased to $28.8 million in the nine months ended September 30, 2020 as compared to $33.4 million in the nine months ended September 30, 2019. As a percentage of net sales, research and development expense decreased 10 basis points to 4.7% in the nine months ended September 30, 2020 as compared to 4.8% in the nine months ended September 30, 2019. The lower spend is driven by cost cutting measures in light of the COVID-19 pandemic while still investing in key projects.

Other Expense

Other expense in the three months ended September 30, 2020 and 2019 related to non-service pension costs as further described in Note 12.

Other expense in the nine months ended September 30, 2020 related to non-service pension costs as further described in Note 12 and for the nine months ended September 30, 2019 it mainly related to non-service pension costs and costs associated with our sixth amended and restated senior credit agreement entered into on February 7, 2019. These costs include a $3.6 million charge related to commitment fees paid to certain of our lenders, which provided a financing commitment for the Buffalo Filter acquisition, and a loss on the early extinguishment of debt of $0.3 million.

Interest Expense

Interest expense increased to $11.9 million in the three months ended September 30, 2020 from $11.2 million in the three months ended September 30, 2019 and increased to $32.9 million in the nine months ended September 30, 2020 from $32.4 million in the nine months ended September 30, 2019. The weighted average interest rates on our borrowings increased to 4.01% in the three months ended September 30, 2020 as compared to 3.66% in the three months ended September 30, 2019 and decreased to 3.63% in the nine months ended September 30, 2020 as compared to 3.83% in the nine months ended September 30, 2019.

The increase in interest expense during the three months ended September 30, 2020 was due to higher interest rates as compared to the prior period resulting from the amendment to our senior credit facility as more fully described in Note 10 and an increase in non-cash interest expense. The increase in interest expense during the nine months ended September 30, 2020 as compared to the prior period is primarily due to an increase in non-cash interest expense offset by a decrease in interest rates.

Income Tax Expense

Income tax expense has been recorded at an effective tax rate of 60.5% for the three months ended September 30, 2020 compared to 26.2% for the three months ended September 30, 2019. Income tax expense has been recorded at an effective tax rate of (22.9)% for the nine months ended September 30, 2020 compared to 2.1% for the nine months ended September 30, 2019. We calculate our estimated tax liability each quarter based on the level of income and tax liability on a year-to-date basis. At the end of the second quarter of 2020, our loss position resulted in an effective tax rate of 26.6% through the first six months of the year. Given the increase in income in the third quarter of 2020, the year-to-date income level changed and drove a higher level of tax liability in the third quarter on a year-to-date basis. This resulted in a tax rate for the third quarter of 2020 of 60.5% which included a discrete benefit relating to the final issuance of tax regulations regarding US tax on foreign earnings at different rates. 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, 2019, under Note 8 to the consolidated financial statements.

Non-GAAP Financial Measures

Net sales on a "constant currency" basis is a non-GAAP measure. The Company analyzes net sales on a constant currency basis to better measure the comparability of results between periods. To measure percentage sales growth in constant currency, the Company removes the impact of changes in foreign currency exchange rates that affect the comparability and trend of net sales.

Because non-GAAP financial measures are not standardized, it may not be possible to compare this financial measure with other companies' non-GAAP financial measures having the same or similar names. This adjusted financial measure should not be considered in isolation or as a substitute for reported net sales growth, the most directly comparable GAAP financial measure. This non-GAAP financial measure is an additional way of viewing net sales that, when viewed with our GAAP results, provides a more complete understanding of our business. The Company strongly encourages investors and shareholders to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure.

Liquidity and Capital Resources

Our liquidity needs arise primarily from capital investments, working capital requirements and payments on indebtedness under the sixth amended and restated senior credit agreement, described below. We have historically met these liquidity requirements with funds generated from operations and borrowings under our revolving credit facility. In addition, we have historically used term borrowings, including borrowings under the sixth amended and restated 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.

As a result of the COVID-19 pandemic, we experienced lower sales in the first and second quarters of 2020 and although we returned to sales growth in the third quarter of 2020, we are uncertain as to the outlook for sales growth for the remainder of the year and 2021 until such time as an effective vaccine is generally available. Due to the decrease in sales, we incurred a net loss in the nine months ended September 30, 2020. On April 17, 2020 we amended our senior credit agreement to suspend our required leverage ratios for up to four quarters. Under the terms of the amendment, we have certain minimum liquidity and fixed charge coverage ratio requirements with which we were in full compliance with as of September 30, 2020. We are forecasting that sales and earnings will be sufficient to remain in compliance with the liquidity and fixed charge coverage ratio requirements under the terms of the amendment. Management believes that cash flow from operations, including cash and cash equivalents on hand and available borrowing capacity under our revolving credit facility, will be adequate to meet our liquidity needs for the foreseeable future. We have undertaken steps to reduce our spending and expenses in light of our expectation that our revenues will be depressed over the next several months. While we expect that we will be well positioned when surgeries begin to return to their pre-pandemic levels, we are unable to predict with certainty how long the COVID-19 pandemic will last, or how severe its economic impact will be. Even after the COVID-19 pandemic and government responses thereto have subsided, residual economic and other effects may have an impact on the demand for post-pandemic surgery levels that are difficult to predict. If the downturn is more severe and prolonged than we currently expect, we may need to take further steps to reduce our costs, or to refinance our debt.

Operating cash flows

Our net working capital position was $225.2 million at September 30, 2020. Net cash provided by operating activities was $44.4 million and $54.3 million in the nine months ended September 30, 2020 and 2019, respectively, generated on net income (loss) of $(14.6) million and $13.7 million for the nine months ended September 30, 2020 and 2019, respectively. The decrease in cash provided by operating activities in 2020 as compared to 2019 was mainly driven by lower sales and net loss in 2020 resulting from the COVID-19 pandemic. Significant impacts to operating cash flows in 2020 includes increases from accounts receivable as amounts owed by customers as of December 31, 2019 were collected during the nine months ended September 30, 2020. These increases to operating cash flow from accounts receivable were largely offset by decreases in operating cash flow caused by higher inventories on lower sales compared to the same period a year ago.

Investing cash flows

Net cash used in investing activities in the nine months ended September 30, 2020 decreased $368.3 million from the same period a year ago mainly due to the $364.9 million payment for the Buffalo Filter Acquisition in 2019 and $3.2 million in cash received from the sale of a facility during the third quarter of 2020. Capital expenditures were also lower during the nine months ended September 30, 2020 at $9.9 million compared to $13.9 million in the same period a year ago.

Financing cash flows

Net cash used in financing activities in the nine months ended September 30, 2020 was $24.9 million compared to cash provided by financing activities of $337.9 million during 2019. Below is a summary of the significant financing activities impacting the change during the nine months ended September 30, 2020 compared to 2019:

- We received proceeds of $345.0 million during the nine months ended September 30, 2019 related to the issuance of 2.625% convertible notes as further described below.
- We entered into a $265.0 million term loan during the nine months ended September 30, 2019 in conjunction with the refinancing of our senior credit agreement. This new term loan replaced the previous term loan and resulted in net proceeds of $114.0 million during the nine months ended September 30, 2019 compared to $9.9 million in payments in the current year.
- We had net proceeds on our revolving line of credit of $10.0 million compared to $65.0 million in payments during the nine months ended September 30, 2019.
- During the nine months ended September 30, 2019, we paid $51.2 million to purchase hedges related to our convertible notes. Partially offsetting this, were proceeds of $30.6 million from the issuance of warrants as further described below.
- During the nine months ended September 30, 2019, we paid $16.2 million in debt issuance costs associated with the 2.625% convertible notes and the sixth amended and restated senior credit agreement compared to $2.1 million in debt issuance costs during the nine months ended September 30, 2020 in connection with the April 17, 2020 amendment of our sixth amended and restated senior credit agreement as further described below.
- We paid $2.1 million in contingent consideration related to prior acquisitions during the nine months ended September 30, 2020 as compared to $5.7 million during the nine months ended September 30, 2019.

On February 7, 2019 we entered into a sixth amended and restated senior credit agreement consisting of: (a) a $265.0 million term loan facility and (b) a $585.0 million revolving credit facility. The revolving credit facility will terminate and the loans outstanding under the term loan facility will expire on the earlier of (i) February 7, 2024 or (ii) 91 days prior to the earliest scheduled maturity date of the $345.0 million in 2.625% convertible notes due in 2024 described below, (if, as of such date, more than $150.0 million in aggregate principal amount of such convertible notes (or any refinancing thereof) remains outstanding). The term loan facility is payable in quarterly installments increasing over the term of the facility. Proceeds from the term loan facility and borrowings under the revolving credit facility were used to repay the then existing senior credit agreement and in part to finance the acquisition of Buffalo Filter. As noted above, on April 17, 2020 we amended our sixth amended and restated senior credit agreement to suspend our required leverage ratios for up to four quarters. Under the terms of the amendment, there are certain minimum liquidity and fixed charge coverage ratio requirements. Interest rates are also adjusted so that the applicable margin for base rate loans is 2.50% per annum and for Eurocurrency rate loans is 3.50% per annum, and the applicable commitment fee rate for the revolving credit facility is 0.50%. Following the suspension period, the applicable margin will depend upon CONMED's consolidated senior secured leverage ratio, using the pricing grid set forth in the amendment. Interest rates were at LIBOR (subject to 1.00% floor) plus an interest rate margin of 3.50% (4.50% at September 30, 2020).

There were $245.1 million in borrowings outstanding on the term loan facility as of September 30, 2020. There were $230.0 million in borrowings outstanding under the revolving credit facility as of September 30, 2020. Our available borrowings on the revolving credit facility at September 30, 2020 were $352.5 million with approximately $2.5 million of the facility set aside for outstanding letters of credit.

The sixth amended and restated senior credit agreement is collateralized by substantially all of our personal property and assets. The sixth amended and restated senior credit agreement contains covenants and restrictions which, among other things, require the maintenance of certain financial ratios and restrict dividend payments and the incurrence of certain indebtedness and other activities, including acquisitions and dispositions. We were in full compliance with these covenants and restrictions as of September 30, 2020. We are also required, under certain circumstances, to make mandatory prepayments from net cash proceeds from any issuance of equity and asset sales.

On January 29, 2019, we issued $345.0 million in 2.625% convertible notes due in 2024 (the "Notes"). Interest is payable semi-annually in arrears on February 1 and August 1 of each year, commencing August 1, 2019. The Notes will mature on February 1, 2024, unless earlier repurchased or converted. The Notes represent subordinated unsecured obligations and are convertible under certain circumstances, as defined in the indenture, into a combination of cash and CONMED common stock. The Notes may be converted at an initial conversion rate of 11.2608 shares of our common stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $88.80 per share of common stock). Holders of the Notes may convert the Notes at their option at any time on or after November 1, 2023 through the second scheduled trading day preceding the maturity date. Holders of the Notes will also have the right to convert the Notes prior to November 1, 2023, but only upon the occurrence of specified events. The conversion rate is subject to anti-dilution adjustments if certain events occur. A portion of the net proceeds from the offering of the Notes were used as part of the financing for the Buffalo Filter acquisition and $21.0 million were used to pay the cost of certain convertible notes hedge transactions as further described below.

In connection with the offering of the Notes, we entered into convertible note hedge transactions with a number of financial institutions (each, an "option counterparty"). The convertible note hedge transactions cover, subject to anti-dilution adjustments substantially similar to those applicable to the Notes, the number of shares of our common stock underlying the Notes. Concurrently with entering into the convertible note hedge transactions, we also entered into separate warrant transactions with each option counterparty whereby we sold to such option counterparty warrants to purchase, subject to customary anti-dilution adjustments, the same number of shares of our common stock.

The convertible note hedge transactions are expected generally to reduce the potential dilution upon conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be, in the event that the market price per share of our common stock, as measured under the terms of the convertible note hedge transactions, is greater than the strike price ($114.92) of the convertible note hedge transactions, which initially corresponds to the conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes. If, however, the market price per share of our common stock, as measured under the terms of the warrant transactions, exceeds the strike price of the warrants, there would nevertheless be dilution to the extent that such market price exceeds the strike price of the warrants, unless we elect to settle the warrants in cash.

Our Board of Directors has authorized a $200.0 million share repurchase program. Through September 30, 2020, we have repurchased a total of 6.1 million shares of common stock aggregating $162.6 million under this authorization and have $37.4 million remaining available for share repurchases. The repurchase program calls for shares to be purchased in the open market or in private transactions from time to time. We may suspend or discontinue the share repurchase program at any time. We have not purchased any shares of common stock under the share repurchase program during 2020. We have financed the repurchases and may finance additional repurchases through operating cash flow and from available borrowings under our revolving credit facility.

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

New accounting pronouncements

See Note 16 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 nine months ended September 30, 2020. Reference is made to Item 7A. of our Annual Report on Form 10-K for the year ended December 31, 2019 for a description of Qualitative and Quantitative Disclosures About Market Risk.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by CONMED Corporation’s management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) occurred during the quarter ended September 30, 2020 that has materially affected, or is reasonably likely to materially affect, our 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, 2019 and to Note 15 of the Notes to Consolidated Condensed Financial Statements included in Part I of this Report for a description of certain legal matters.

Item 1A. Risk Factors

This Form 10-Q should be read in conjunction with the risk factors and information disclosed in our Annual Report on Form 10-K under Part I, Item 1A for the year ended December 31, 2019. There have been no material changes in the risk factors described in our Annual Report on Form 10-K under Part I, Item 1A for the year ended December 31, 2019, except for the risk factor below.

The COVID-19 global pandemic may pose significant risks to our business if the pandemic, and various government responses to it, continue for an extended period of time.

The public health actions being undertaken to reduce the spread of the virus are and may continue to create significant disruptions with respect to the demand for non-urgent surgeries, hospital and ambulatory surgery center operating volumes, and potentially to our ability to adequately rely on our supply chain.

As of the date of this report:

1. In some geographies or territories, our field-based sales representatives may be limited in their ability to travel to service or call on customers, with in-person visits in many cases dependent on requests by physicians to cover surgeries, the policies of individual hospitals, surgery centers or other institutions, and the availability of appropriate personal protective equipment;

2. Our office-based employees continue to work remotely, and

3. Our manufacturing facilities and warehouses continue to operate with precautions including, increased hygiene and cleaning within facilities, social distancing and monitoring of temperatures.

As such, the COVID-19 pandemic has directly and indirectly adversely impacted the Company’s business, financial condition and operating results. The extent to which this will continue will depend on numerous evolving factors that are highly uncertain, rapidly changing and cannot be predicted with precision or certainty at this time, including:

- the duration and scope of the COVID-19 pandemic, including any resurgence of the pandemic in some areas;

- governmental, business and individual actions that have been, continue to be, or may in the future be taken in response to the COVID-19 pandemic including, for example, business and travel restrictions, “stay-at-home” and “shelter-in-place” directives, quarantines, and slowdowns, suspensions or delays of commercial activity;

- the effect of the COVID-19 pandemic on our partners and customers, including their ability to conduct surgeries, to continue to purchase our products, to pay for the products purchased from us and/or to collect reimbursement, or their ability to do so in the volumes that existed prior to the pandemic;

- the effect of the COVID-19 pandemic and the governmental response on the budgets of our partners and customers;

- our ability during the COVID-19 pandemic to continue operations and/or adjust our production schedules in an efficient manner, as a result of current and anticipated weakened demand and/or production delays, if any, from our suppliers;

- significant reductions or volatility in demand for certain surgeries or for certain of our products;

- the effect of the COVID-19 pandemic on our supply chain’s reliability and costs;

- costs incurred as a result of actions intended to protect the health and safety of our employees and continued operations, including enhanced cleaning processes, protocols designed to implement appropriate social distancing practices, and/or adoption of additional wage and benefit programs to assist employees;

- potential future restructuring, impairment and other charges;

- the impact of the COVID-19 pandemic on the financial and credit markets and economic activity generally;

- our ability to access lending, capital markets, and other sources of liquidity when needed on reasonable terms or at all;

- our ability to comply with the financial covenants in our debt agreements if a material economic downturn as a result of the COVID-19 pandemic results in substantially increased indebtedness and/or lower earnings; and

- the exacerbation of negative impacts resulting from the occurrence of a global or national recession, depression or other sustained adverse market event as a result of the COVID-19 pandemic.

We have undertaken steps to reduce our spending and expenses in light of the uncertainty concerning forecasting demand, and consequently revenues. While we expect that we will be well positioned if and/or when surgeries begin to return to their pre-pandemic levels, we are unable to predict with certainty how long the COVID-19 pandemic will last, or how severe its economic impact will be. Even after the COVID-19 pandemic and government responses thereto have subsided, residual economic and other effects may have an impact on the demand for post-pandemic surgery levels that are difficult to predict. If the downturn is more severe and prolonged than we currently expect, we may need to take further steps to reduce our costs, or to refinance our debt.

In addition to the other information set forth in this report, you should carefully consider the factors discussed under "Risk Factors" in our annual report on Form 10-K for the 2019 fiscal year. These risks may be heightened by the COVID-19 pandemic and could materially and adversely affect our business. The risks and uncertainties presented in this report and in our annual report on Form 10-K are not the only ones facing us. Additional risks and uncertainties not presently known to us, or that we currently believe to be immaterial, may also adversely affect our business.

Item 6. Exhibits

Exhibit Index

Exhibit No.	Description of Exhibit
31.1	Certification of Curt R. Hartman 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 Todd W. Garner 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	Certifications of Curt R. Hartman and Todd W. Garner pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page - Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document (included in Exhibit 101)

SIGNATURES

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

CONMED CORPORATION

By: /s/ Todd W. Garner
Todd W. Garner
Executive Vice President and
Chief Financial Officer

Date:
October 29, 2020

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Curt R. Hartman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CONMED Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 29, 2020

/s/ Curt R. Hartman
Curt R. Hartman
President, Chief Executive Officer
& Chair of the Board

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Todd W. Garner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CONMED Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 29, 2020

/s/ Todd W. Garner
Todd W. Garner
Executive Vice President and
Chief Financial Officer

Exhibit 32.1

CERTIFICATIONS
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (a) AND (b) OF SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of CONMED Corporation, a Delaware corporation (the "Corporation"), does hereby certify that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 (the "Form 10-Q") of the Corporation fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date:	October 29, 2020	/s/ Curt R. Hartman
		Curt R. Hartman
		President, Chief Executive Officer & Chair of the Board

Date:	October 29, 2020	/s/ Todd W. Garner
		Todd W. Garner
		Executive Vice President and
		Chief Financial Officer