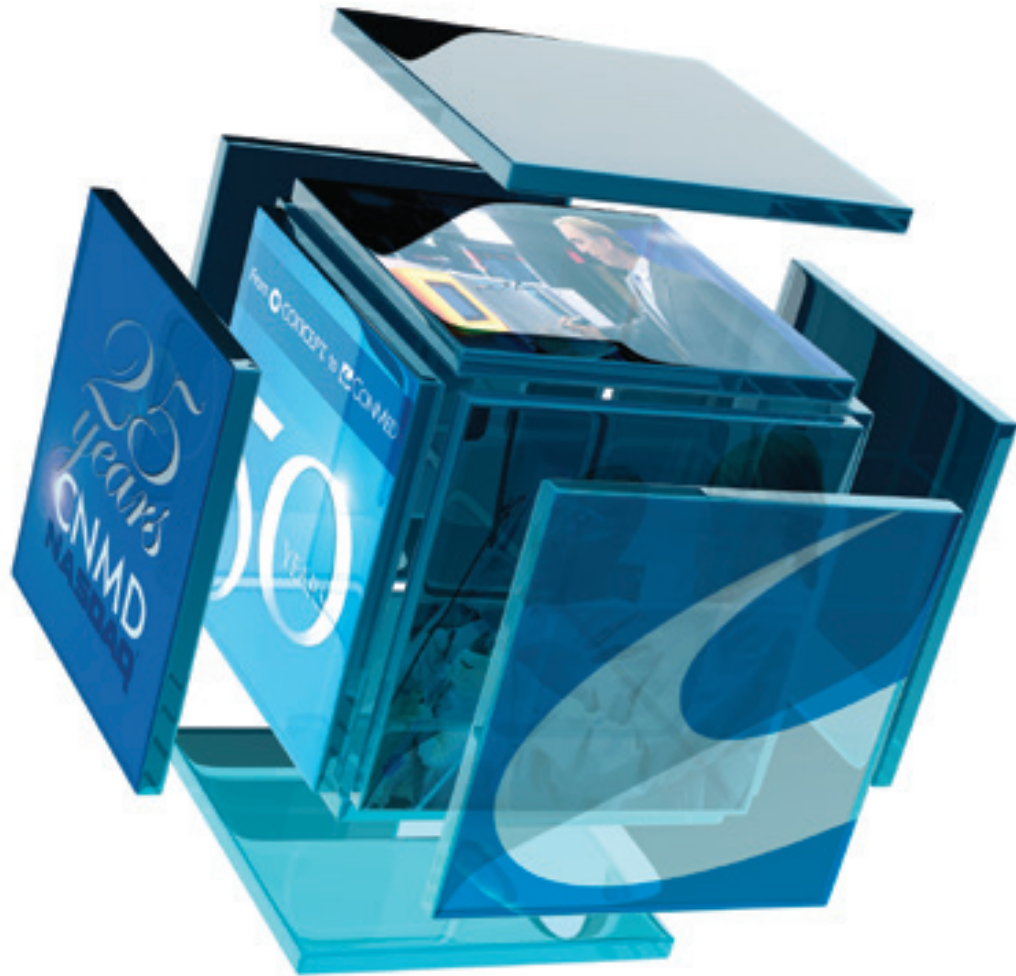


Building On The Past | Looking To The Future



Our products are the result of creative collaborations between our finest medical device designers and medical professionals from around the world. Education and professional partnerships are giving us success in patient outcomes and market adoption. Long-term strategies are paying dividends, and a spirit of innovation infuses everything we do. **We are new.**


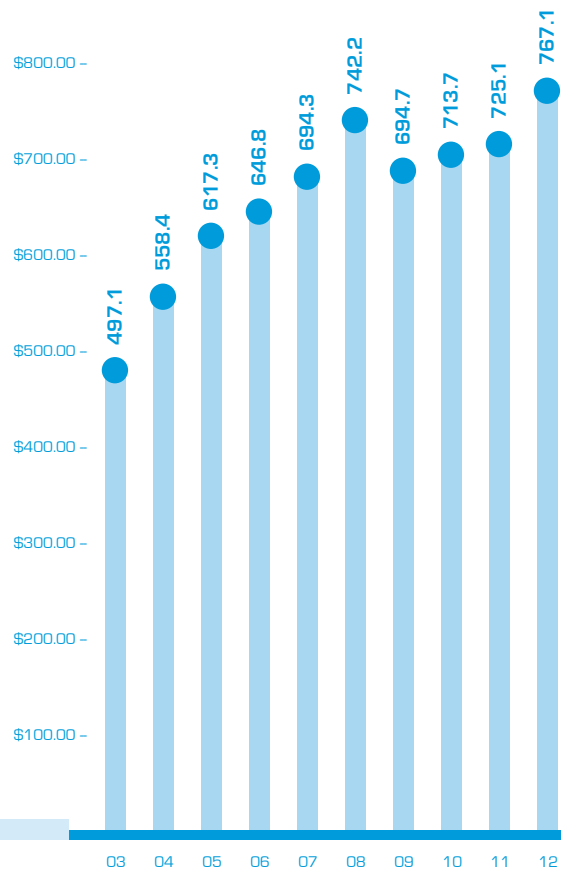


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Financial Highlights

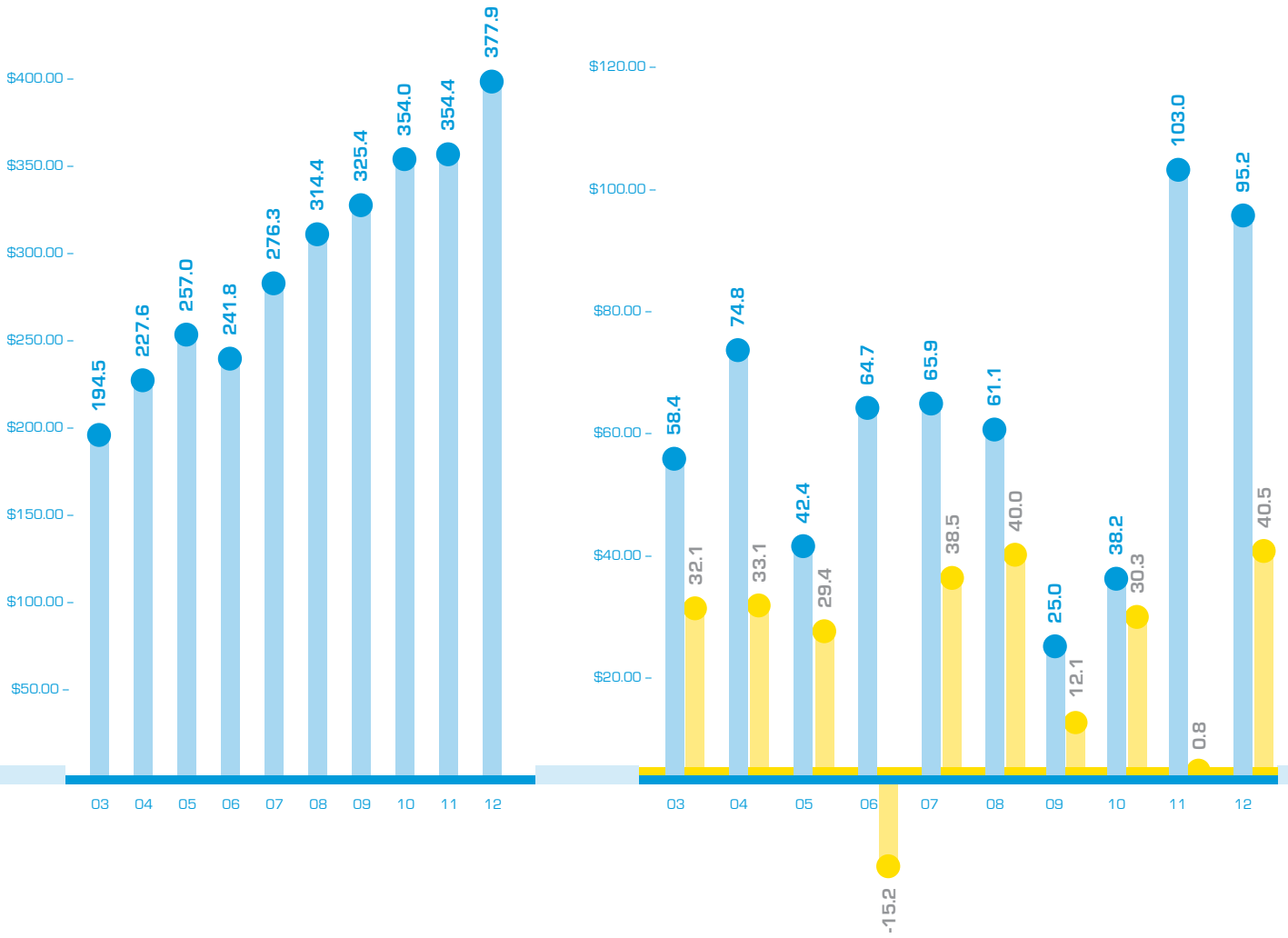
Net Sales (in \$ millions)



Retained Earnings (in \$ millions)

Cash from Operations (in \$ millions) ●

Net Income (in \$ millions) ●



Letter to the Shareholders

March 2013

To My Fellow Shareholders:

2012 marked several important milestones for CONMED Corporation. We celebrated our 25th year as a publicly traded company. During that span, revenues increased from \$12 million to more than \$767 million in 2012. In fact, we had our strongest sales quarter in the fourth quarter of 2012, with revenues exceeding \$200 million for the first time in Company history. In addition to record revenues, CONMED also achieved record earnings in 2012.

Our growth in financial performance is matched by our growing presence as a global company. When we first went public, our sales were principally domestic and we had no operations outside the United States. Today, we have employees selling our products in 16 countries outside the U.S., including China, with distributors representing our products in another 100+. In 2012 we benefited from our newly acquired sales offices in Denmark, Finland and Sweden, as well as increasing growth in Latin America and China.

Our cash flows, which have historically been strong, continue to grow. Cash provided by operating activities in 2012 totaled \$95.2 million. This cash generation is a very healthy 12.4% of sales for the full year 2012.

Based on our strong cash flow generation and our optimistic outlook for continued future operational success, in early 2012 our Board of Directors adopted a cash dividend policy and declared an initial quarterly cash dividend of \$0.15 per share. We expect to pay future cash dividends on a quarterly basis. Based on the current quarterly cash dividend, the total annual dividend rate equals \$0.60 per share, which is equivalent to a dividend yield of approximately 2% based on the price of CONMED stock as of the date of this letter. This decision by the Board reflects its long-term confidence in the future of our business, and a desire to ensure all shareholders benefit appropriately from our success. Of course, any decision to pay future cash dividends will be subject to Board approval and will depend on CONMED's future earnings, cash flow, financial condition, financial covenants and other relevant factors. To put this in perspective, the amount of cash we used to pay dividends declared in 2012 was greater than CONMED's revenues when it first went public 25 years ago.

Our strategy, which brought us to achieve these milestones, remains the same: continued focus on organic growth through the introduction of innovative products, coupled with complementary acquisitions, along with improved margins as a result of initiatives to reduce costs and increase operating efficiencies.

Our record sales, earnings and long-term track record reflect the key attributes that make CONMED an attractive and well-positioned company in the markets we serve:

- We are a technology-based surgical device company serving surgeons and healthcare facilities around the world, with sales exceeding three-quarters of \$1 billion. We hold Number 2 or 3 market positions in our key product lines.
- CONMED has consciously shifted its mix to single-use products that provide an ongoing stream of sales every day. These comprise about 80% of our sales. The remaining 20% comes from capital equipment sales that drive the use of our single-use products in a razor/razor blade model.
- Over 60% of our sales come from the orthopedic specialties of Sports Medicine and Powered Surgical Instruments, markets that enjoy relatively attractive growth rates. Our fastest-growing product line, Sports Medicine Joint Repair, is focused on surgical procedure devices that assist surgeons in repairing soft tissue injuries in joints. New initiatives, such as our successful Shoulder Restoration System and the newly established relationship with the Musculoskeletal Transplant Foundation (MTF) for the promotion of allograft tissue, have driven the positive growth trends.

President & Chief Executive Officer



Joseph J. Corasanti

- CONMED is truly a global company with a 50/50 split of sales between U.S. and international markets. We are focused on growing sales in emerging markets such as Asia and the Americas, which grew 16% in the fourth quarter of 2012 and 8% for the full year 2012.
- Finally, CONMED has delivered over 15% growth in adjusted earnings per share in each of the last three years. This solid earnings performance and our strong cash flow allow us to re-invest internally, seek product and tuck-in acquisitions, and to return cash to shareholders through dividends and selective share repurchases. In addition to our regular dividend, the Company announced a \$50 million stock repurchase program in October 2012 and we are repurchasing CONMED's stock in the open market, subject to market conditions and provisions of our credit agreement.

Looking to the future, we believe modestly improving global economies coupled with our new products will result in greater

revenue growth, while our continued plans to improve operational efficiency will keep expenses in check. Although earnings growth in 2013 will be hampered by the new 2.3% medical device excise tax on products sold in the U.S., and by foreign currency translation rates that are less favorable than those in 2012, we are optimistic about CONMED's long-term future. We are committed to best-in-class product development and service to our customers, and creating value for our shareholders. We look forward to the future with determination and confidence.

As always, we thank you for your continued trust and support.

Sincerely,



Joseph J. Corasanti
President & Chief Executive Officer



CONMED Corporation

Reconciliation of Reported Net Income to Non-GAAP Net Income Before Unusual Items and Amortization of Debt Discount¹

(In thousands except per share amounts) (Unaudited)

	2010	2011	2012
Reported net income	\$ 30,346	\$ 752	\$ 40,481
Facility consolidation costs included in cost of sales	2,397	3,467	7,052
Termination of a product offering	2,489	—	—
Total cost of sales, other	4,886	3,467	7,052
Administrative consolidation costs	2,176	792	6,497
Costs associated with purchase of a distributor	—	300	704
Costs associated with legal arbitration	—	—	1,555
Costs associated with purchase of a business	—	—	1,194
Total other expense	2,176	1,092	9,950
Impairment of goodwill	—	60,302	—
Loss on early extinguishment of debt	79	—	—
Amortization of debt discount	4,244	3,903	—
Total unusual expense before income taxes	11,385	68,764	17,002
Provision (benefit) for income taxes on unusual expense	(4,139)	(26,515)	(5,829)
Net income before unusual items and amortization of debt discount	\$ 37,592	\$ 43,001	\$ 51,654
Per share data:			
Reported net income			
Basic	\$ 1.06	\$ 0.03	\$ 1.43
Diluted	\$ 1.05	\$ 0.03	\$ 1.41
Net income before unusual items and amortization of debt discount			
Basic	\$ 1.31	\$ 1.52	\$ 1.83
Diluted	\$ 1.30	\$ 1.50	\$ 1.80

¹This table is provided to reconcile certain financial disclosures. Management has provided the above reconciliation of net income before unusual items and amortization of debt discount as an additional measure that investors can use to compare operating performance between reporting periods. Management believes this reconciliation provides a useful presentation of operating performance.

Building On The Past Looking To The Future

During 2012, CONMED reached many corporate milestones, from celebrating our 25th year on the NASDAQ market to expanding our global reach with employees selling our products in 16 countries. These important landmarks continue to pave the way to fulfill our mission in delivering instruments and technologies preferred by physicians and patients worldwide, while providing the highest quality education and support to our clinical partners. Whether that means a reduction in recovery time, less pain for the patient, the ability to make a once difficult procedure easier, or the opportunity to bring a procedure to a new and more challenging patient-population, our purpose is to provide clinicians with tools and technologies that enhance productivity and improve patient outcomes.

We are redefining what it means to advance minimally invasive and orthopedic surgery. In addition to putting our products in the hands of medical professionals, we are teaching them the latest techniques and seeking their input on product design. We're also finding collaborative partners who can work with us to provide solutions greater than the sum of our parts. We anticipate the needs of medical providers and patients, giving them answers before they even ask.

We have built it all on a solid foundation of: strong fundamentals and shareholder profits; controlled acquisition and organic growth; and a clear vision and a talented workforce. With ground breaking new products, faster innovation, and more profitable partnerships, the future is ours to shape. Together.

25 Years on the NASDAQ

We proudly rang the bell at NASDAQ this last August. It was an honor to celebrate our 25th year on the world's first electronic stock market, the second largest exchange by market capitalization. This tremendous milestone speaks volumes about our corporate strength. Through recessions, international crises and global changes in healthcare delivery systems, we have thrived. From simple beginnings in 1973 to a company with more than \$767 million in sales worldwide, we have capitalized on our strengths year after year. With careful planning, a calculated balance between risk and reward, and strategic execution, we have continued to grow the company and deliver value. In the years ahead, we will continue to be a reliable and profitable investment for our shareholders by providing targeted solutions to our customers worldwide.



CONMED Corporation Board of Directors and Management Team Ring the Opening Bell to Celebrate 25 Years on the NASDAQ

50 Years in the Making

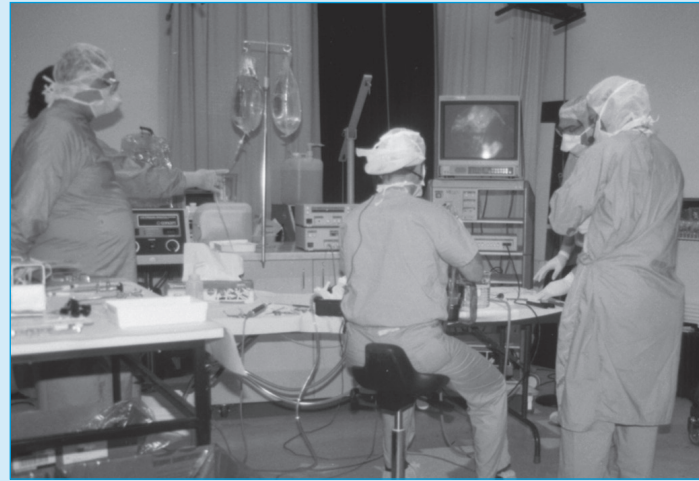


In 1963, two physicians changed the course of surgical medicine. Inventions by Dr. Terry Tanner, founder of Concept Inc., and Dr. Robert Hall, founder of Hall® Power, both brands of which are now part of CONMED, led to incredible advances in arthroscopic and orthopedic surgery. This year we're honoring these pioneers, in addition to all the surgeons and inventors we have partnered with in the last 50 years.

Our heritage is rooted in our commitment to the research and development of state-of-the-art products, and is reflected in our partnership *with* surgeons, *for* surgeons.

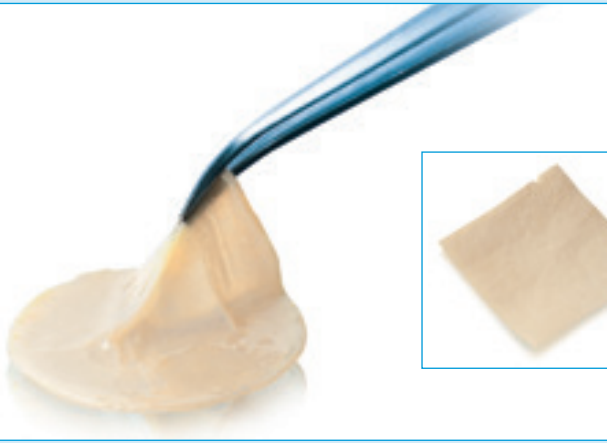
This collaboration has led to many firsts over the years. From the firsts in disposable shaver blades, bendable blades and disposable cannulae to the new Lithium Battery introduced in 2012, powerful enough to last through an entire procedure without charging.

We have a history of invention, cooperation and leadership, focusing on better patient outcomes. With an eye on the future, we will continue our clinical partnerships to develop and deliver better instruments and technologies for doctors and patients worldwide.



A Groundbreaking Collaboration

In January 2012, we announced a strategic partnership with the Musculoskeletal Transplant Foundation (MTF), the world's largest tissue bank. This uniquely positions us to offer surgeons allograft tissues for their sports medicine and other arthroscopic procedures. CONMED is also the exclusive worldwide distributor of MTF's Cascade® Platelet-Rich Plasma (PRP), which uses a patient's own blood components to aid in the healing process.



Cascade® PRP Fibrin Membrane and Allopatch HD® Human Dermis.*

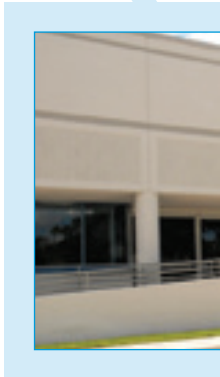
This strategic relationship has already had a positive effect on our earnings, and advances our already strong competitive position within sports medicine. Moreover, the MTF product line is increasing the visibility of our brands among surgeons, providing a broader product offering for potential new customer relationships and allowing us to deliver enhanced benefits to patients.

Advancing the Future through Focused Surgeon Training:

The Centers for Orthopedic Education

At CONMED, our commitment to advancing the future of minimally invasive surgery is also demonstrated in our focus on surgeon training. To share the latest innovations we have expanded our Center for Orthopedic Education in Largo, Florida, and more recently, opened a new one in New York City. Additionally, our Educational Center in Germany provides access to our programs for European surgeons. These advanced educational facilities feature multiple hands-on learning environments, state-of-the-art didactic auditoriums, and a showcase for CONMED's products.

Surgeon-specific lab experiences take a practical approach to teaching new skills and techniques. Didactic courses provide demonstrations, discussions and best practices in the field and offer surgeons an opportunity to use CONMED products. Courses include electrosurgery, arthroscopy, endoscopy, otolaryngology, and orthopedic surgical techniques, and address issues surgeons face daily in the operating room. Participants leave with a better understanding of CONMED products and provide us crucial insights into their needs.



*Cascade® is a registered trademark of Cascade Medical Enterprises, LLC

Teaching. Learning. Growing.

In addition to our learning centers, we participate in more than 400 medical association courses and workshops annually, and co-sponsor a series of learning centers in conjunction with various medical organizations worldwide.



Not only do we support the learning of new techniques and use of new equipment, we also educate on better ways to reduce clinical hazards and risks and help medical professionals identify ways to streamline and manage their operating theaters for better productivity. Our medical education materials include a wealth of information in print and video.

We never stop learning, and we never stop growing. That's how we build from the past and look toward the future. Together.



Market for CONMED's Common Stock and Related Stockholder Matters

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

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

Period	2011		2012	
	High	Low	High	Low
First Quarter	\$ 27.47	\$ 25.33	\$ 30.47	\$ 26.00
Second Quarter	29.00	25.99	30.42	26.03
Third Quarter	29.38	20.81	29.25	25.85
Fourth Quarter	27.83	24.19	29.33	25.71

Our Board of Directors has authorized a share repurchase program; see Note 7 to the Consolidated Financial Statements.

On February 29, 2012, the Board of Directors adopted a cash dividend policy and declared an initial quarterly dividend of \$0.15 per share. During 2012, the Company declared total dividends of \$0.60 per share. Future decisions as to the payment of dividends will be at the discretion of the Board of Directors, subject to conditions then existing, including our financial condition and certain limitations on cash dividends contained in debt agreements.

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

Equity Compensation Plan Information

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

Five Year Summary of Selected Financial Data (As Adjusted) [1]

(In thousands, except per share data)

Years Ended December 31,	2008	2009	2010	2011	2012
Statements of Operations Data⁽²⁾:					
Net sales	\$ 742,183	\$ 694,739	\$ 713,723	\$ 725,077	\$ 767,140
Income from operations	75,259	28,269	57,093	8,274	65,210
Net income	39,989	12,137	30,346	752	40,481
Per Share Data:					
Basic earnings per share	\$ 1.39	\$ 0.42	\$ 1.06	\$ 0.03	\$ 1.43
Diluted earnings per share	1.37	0.42	1.05	0.03	1.41
Dividends per share of common stock	—	—	—	—	0.60
Weighted Average Number of Common Shares					
In Calculating:					
Basic earnings per share	28,796	29,074	28,715	28,246	28,301
Diluted earnings per share	29,227	29,142	28,911	28,633	28,653
Other Financial Data:					
Depreciation and amortization	\$ 37,159	\$ 41,283	\$ 41,807	\$ 42,687	\$ 46,616
Capital expenditures	35,879	21,444	14,732	17,552	21,532
Balance Sheet Data (at period end):					
Cash and cash equivalents	\$ 11,811	\$ 10,098	\$ 12,417	\$ 26,048	\$ 23,720
Total assets	931,661	958,413	985,773	935,594	1,084,462
Long-term obligations	316,532	302,791	219,344	231,339	354,956
Total shareholders' equity	540,215	576,515	586,563	573,071	606,998

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Five Year Summary of Selected Financial Data, and our Consolidated Financial Statements and related notes contained elsewhere in this report.

Overview of CONMED Corporation

CONMED Corporation ("CONMED", the "Company", "we" or "us") is a medical technology company with an emphasis on surgical devices and equipment for minimally invasive procedures and monitoring. The Company's products are used by surgeons and physicians in a variety of specialties including orthopedics, general surgery, gynecology, neurosurgery, and gastroenterology. These product lines and the percentage of consolidated revenues associated with each, are as follows:

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

A significant amount of our products are used in surgical procedures with approximately 80% of our revenues derived from the sale of disposable products. Our capital equipment offerings also facilitate the ongoing sale of related disposable products and accessories, thus providing us with a recurring revenue stream. We manufacture substantially all of our products in facilities located in the United States and Mexico. We market our products both domestically and internationally directly to customers and through distributors. International sales approximated 48%, 50% and 50% in 2010, 2011 and 2012, respectively.

Business Environment and Opportunities

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

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

We have a variety of research and development initiatives focused in each of our principal product lines as continued innovation and commercialization of new proprietary products and processes are essential elements of our long-term growth strategy. Our reputation as an innovator is exemplified by recent new product introductions such as the Genesys PressFT™ biocomposite Suture Anchor, a bioabsorbable anchor for use in arthroscopic stabilization procedures of the shoulder and labral repair of the hip; Y-Knot™ All-suture Anchor, a suture anchor implant comprised entirely of high strength suture for instability repair procedures in the shoulder and hip as well as for small joint repairs in the extremities; M-Class Blades, our new line of large bone blades that are engineered with beveled center teeth, course middle teeth and fine outer teeth that work together

to provide optimal blade control and a more even cut; DetachaTip® III with a new composite shaft and internal ratcheting mechanism provides a more ergonomic, more reliable, safer alternative for Endoscopic manual instruments. Hip Preservation System™, from access to repair, the system is committed to optimizing patient outcomes by providing a comprehensive solution of joint preserving instrumentation and techniques; the Hall® Surgical Lithium Power Battery System offers lithium-ion battery technology which will provide greater power and longevity during surgery when compared to present batteries and the Altrus® Thermal Tissue Fusion System which utilizes thermal energy to seal, cut, grasp, and dissect vessels up to 7mm in size utilizing a closed feedback loop between the energy source and the single-use handpiece to precisely control the desired effect on tissue.

Business Challenges

Significant volatility in the financial markets and foreign currency exchange rates as well as depressed economic conditions in both domestic and international markets, have presented significant business challenges since the second half of 2008. While we returned to revenue growth in 2010, 2011 and 2012 and are cautiously optimistic that the domestic economic environment is improving, conditions in Europe and elsewhere may present significant business challenges for the Company. While there can be no assurance that improvement in the overall economic environment will be sustained, we will continue to monitor and manage the impact of the overall economic environment on the Company.

Over the past few years we successfully completed certain of our operational restructuring plans whereby we consolidated manufacturing and distribution centers as well as restructured certain of our administrative functions. We continue to restructure both operations and administrative functions as necessary throughout the organization. However, we cannot be certain such activities will be completed in the estimated time period or that planned cost savings will be achieved.

Our facilities are subject to periodic inspection by the United States Food and Drug Administration ("FDA") and foreign regulatory agencies or notified bodies for, among other things, conformance to Quality System Regulation and Current Good Manufacturing Practice ("CGMP") requirements and foreign or international standards. We are committed to the principles and strategies of systems-based quality management for improved CGMP compliance, operational performance and efficiencies through our Company-wide quality systems initiatives. However, there can be no assurance that our actions will ensure that we will not receive a warning letter or be the subject of other regulatory action, which may include consent decrees or fines, that we will not conduct product recalls or that we will not experience temporary or extended periods during which we may not be able to sell products in foreign countries.

Critical Accounting Policies

Preparation of our financial statements requires us to make estimates and assumptions which affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Consolidated Financial Statements describes the significant accounting policies used in preparation of the Consolidated Financial Statements. The most significant areas involving management judgments and estimates are described below and are considered by management to be critical to understanding the financial condition and results of operations of CONMED Corporation.

Revenue Recognition

Revenue is recognized when title has been transferred to the customer which is at the time of shipment. The following policies apply to our major categories of revenue transactions:

- Sales to customers are evidenced by firm purchase orders. Title and the risks and rewards of ownership are transferred to the customer when product is shipped under our stated shipping terms. Payment by the customer is due under fixed payment terms.
- We place certain of our capital equipment with customers on a loaned basis in return for commitments to purchase related single-use products over time periods generally ranging from one to three years. In these circumstances, no revenue is recognized upon capital equipment shipment as the equipment is loaned and subject to return if certain minimum single-use purchases are not met. Revenue is recognized upon the sale and shipment of the related single-use products. The cost of the equipment is amortized over its estimated useful life.
- Service revenues earned by the Company related to the sale of sports medicine allograft tissue are recorded in accordance with the contractual terms of our agreement with Musculoskeletal Transplant Foundation (“MTF”). These revenues are recorded net of amortization of the acquired assets.
- Product returns are only accepted at the discretion of the Company and in accordance with our “Returned Goods Policy”. Historically the level of product returns has not been significant. We accrue for sales returns, rebates and allowances based upon an analysis of historical customer returns and credits, rebates, discounts and current market conditions.
- Our terms of sale to customers generally do not include any obligations to perform future services. Limited warranties are provided for capital equipment sales and provisions for warranty are provided at the time of product sale based upon an analysis of historical data.
- Amounts billed to customers related to shipping and handling have been included in net sales. Shipping and handling costs included in selling and administrative expense were \$12.1 million, \$13.0 million and \$12.8 million for 2010, 2011 and 2012, respectively.
- We sell to a diversified base of customers around the world and, therefore, believe there is no material concentration of credit risk.
- We assess the risk of loss on accounts receivable and adjust the allowance for doubtful accounts based on this risk assessment. Historically, losses on accounts receivable have not been material. Management believes that the allowance for doubtful accounts of \$1.2 million at December 31, 2012 is adequate to provide for probable losses resulting from accounts receivable.

Inventory Valuation

We write-off excess and obsolete inventory resulting from the inability to sell our products at prices in excess of current carrying costs. The markets in which we operate are highly competitive, with new products and surgical procedures introduced on an on-going basis. Such marketplace changes may result in our products becoming obsolete. We make estimates regarding the future recoverability of the costs of our products and record a provision for excess and obsolete inventories based on historical experience, expiration of sterilization dates and expected future trends. If actual product life cycles, product demand or acceptance of new product introductions are less favorable than projected by management, additional inventory write-downs may be required.

Goodwill and Intangible Assets

We have a history of growth through acquisitions. Assets and liabilities of acquired businesses are recorded at their estimated fair values as of the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. We have accumulated goodwill of \$256.8 million and other intangible assets of \$190.8 million as of December 31, 2012.

In accordance with FASB guidance, goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to at least annual impairment testing. It is our policy to perform our annual impairment testing in the fourth quarter. The identification and measurement of goodwill impairment involves the estimation of the fair value of our reporting units. Estimates of fair value are based on the best information available as of the date of the assessment, which primarily incorporate management assumptions about expected future cash flows and other valuation techniques. Future cash flows may be affected by changes in industry or market conditions or the rate and extent to which anticipated synergies or cost savings are realized with newly acquired entities. During 2012, we completed our goodwill impairment testing with data as of October 1, 2012. We adopted the Step 0 qualitative impairment test in accordance with ASC 350 whereby we assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Our last goodwill impairment testing, performed as of October 1, 2011, under the Step 1 method for our CONMED Electrosurgery, CONMED Endosurgery and CONMED Linvatec reporting units, utilized CONMED Corporation’s EBITDA multiple adjusted for a market-based control premium with the resultant fair values exceeding carrying values by 42% to 107%. Based upon our qualitative assessment, we believe the fair value of these reporting units continue to exceed carrying values by a substantial margin.

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

Intangible assets with a finite life are amortized over the estimated useful life of the asset and are evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The carrying amount of an intangible asset subject to amortization is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset. An impairment loss is recognized by reducing the carrying amount of the intangible asset to its current fair value.

Customer relationship assets arose principally as a result of the 1997 acquisition of Linvatec Corporation. These assets represent the acquisition date fair value of existing customer relationships based on the after-tax income expected to be derived during their estimated remaining useful life. The useful lives of these customer relationships were not and are not limited by contract or any economic, regulatory or other known factors. The estimated useful life of the Linvatec customer relationship assets was determined as of the date of acquisition as a result of a study of the observed pattern of historical revenue attrition during the 5 years immediately preceding the acquisition of Linvatec Corporation. This observed attrition pattern was then applied to the existing customer relationships to derive the future expected retirement of the customer relationships. This analysis indicated an annual attrition rate of 2.6%. Assuming an exponential attrition pattern, this equated to an average remaining useful life of approximately 38 years for the Linvatec customer relationship assets. Customer relationship intangible assets arising as a result of other business acquisitions are being amortized over a weighted average life of 15 years. The weighted average life for customer relationship assets in aggregate is 33 years.

We evaluate the remaining useful life of our customer relationship intangible assets each reporting period in order to determine whether events and circumstances warrant a revision to the remaining period of amortization. In order to further evaluate the remaining useful life of our customer relationship intangible assets, we perform an analysis and assessment of actual customer attrition and activity as events and circumstances warrant. This assessment includes a comparison of customer activity since the acquisition date and review of customer attrition rates. In the event that our analysis of actual customer attrition rates indicates a level of attrition that is in excess of that which was originally contemplated, we would change the estimated useful life of the related customer relationship asset with the remaining carrying amount amortized prospectively over the revised remaining useful life.

We test our customer relationship assets for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Factors specific to our customer relationship assets which might lead to an impairment charge include a significant increase in the annual customer attrition rate or otherwise significant loss of customers, significant decreases in sales or current-period operating or cash flow losses or a projection or forecast of losses. We do not believe that there have been events or changes in circumstances which would indicate the carrying amount of our customer relationship assets might not be recoverable.

For all other indefinite lived intangible assets, we perform a Step 0 qualitative impairment test in accordance with ASC 350. Based upon this assessment, we have determined that it is unlikely that our indefinite lived intangible assets are impaired.

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

Pension Plan

We sponsor a defined benefit pension plan covering substantially all our United States based employees. The pension plan was frozen during the first quarter of 2009. Major assumptions used in accounting for the plan include the discount rate, expected return on plan assets, rate of increase in employee compensation levels and expected mortality. Assumptions are determined based on Company data and appropriate market indicators, and are evaluated annually as of the plan's measurement date. A change in any of

these assumptions would have an effect on net periodic pension costs reported in the consolidated financial statements.

The weighted-average discount rate used to measure pension liabilities and costs is set by reference to the Citigroup Pension Liability Index. However, this index gives only an indication of the appropriate discount rate because the cash flows of the bonds comprising the index do not match precisely the projected benefit payment stream of the plan. For this reason, we also consider the individual characteristics of the plan, such as projected cash flow patterns and payment durations, when setting the discount rate. The rates used in determining 2012 and 2013 pension expense are 4.30% and 3.90%, respectively.

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

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

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

Stock-based Compensation

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

Income Taxes

The recorded future tax benefit arising from deductible temporary differences and tax carryforwards is approximately \$34.9 million at December 31, 2012. Management believes that earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future income tax benefits.

The Company is subject to taxation in the United States and various states and foreign jurisdictions. Taxing authority examinations can involve complex issues and may require an extended period of time to resolve. Our Federal income tax returns have been examined by the Internal Revenue Service ("IRS") for calendar years ending through 2011. Tax years subsequent to 2011 are subject to future examination.

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

Consolidated Results of Operations

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

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

2012 Compared to 2011

Sales for 2012 were \$767.1 million, an increase of \$42.0 million (5.8%) compared to sales of \$725.1 million in 2011 with the increases occurring in all product lines except Patient Care and Electrosurgery. The distribution agreement with Musculoskeletal Transplant Foundation (“MTF”) accounted for a 3.9% annual sales increase. In local currency, excluding the effects of the hedging program, sales increased 5.7%. Sales of capital equipment decreased \$6.3 million (-3.9%) to \$153.6 million in 2012 from \$159.9 million in 2011; sales of single-use and reusable products increased \$48.3 million (8.5%) to \$613.5 million in 2012 from \$565.2 million in 2011. In local currency, excluding the effects of the hedging program, sales of capital equipment decreased 3.8% while single-use and reusable products increased 8.4%. We believe the overall decline in capital sales is driven by capital purchasing constraints in hospitals due to depressed economic conditions.

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

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

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

During 2011, we recorded a \$60.3 million charge for the impairment of goodwill related to the CONMED Patient Care operating unit.

Refer to Note 4 to the Consolidated Financial Statements for further details.

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

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

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

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

2011 Compared to 2010

Sales for 2011 were \$725.1 million, an increase of \$11.4 million (1.6%) compared to sales of \$713.7 million in 2010 with the increases occurring in all product lines except Patient Care. In local currency, excluding the effects of the hedging program, sales increased 0.7%. Sales of capital equipment decreased \$5.3 million (-3.2%) to \$159.9 million in 2011 from \$165.2 million in 2010; sales of single-use and reusable products increased \$16.7 million (3.0%) to \$565.2 million in 2011 from \$548.5 million in 2010. In local currency, excluding the effects of the hedging program, sales of capital equipment decreased 3.9% while single-use and reusable products increased 2.1%. We believe the overall decline in capital sales is driven by capital purchasing constraints in hospitals due to depressed economic conditions.

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

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

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

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

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

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

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

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

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

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

Operating Segment Results:

Segment information is prepared on the same basis that we review financial information for operational decision-making purposes. We conduct our business through five principal operating segments: CONMED Endoscopic Technologies, CONMED Endosurgery, CONMED Electrosurgery, CONMED Linvatec and CONMED Patient Care. Based upon the aggregation criteria for segment reporting, we have grouped our CONMED Endosurgery, CONMED Electrosurgery and CONMED Linvatec operating segments into

a single reportable segment. The economic characteristics of CONMED Patient Care and CONMED Endoscopic Technologies do not meet the criteria for aggregation due to the lower overall operating income (loss) of these segments.

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

CONMED Endosurgery, CONMED Electrosurgery and CONMED Linvatec

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

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

- Arthroscopy sales increased \$40.6 million (14.0%) in 2012 to \$330.5 million from \$289.9 million in 2011 mainly due to the distribution agreement with MTF and increased sales of procedure specific products. In local currency, excluding the effects of the hedging program, sales increased 14.0%. Sales of capital equipment increased \$0.1 million (0.2%) to \$63.1 million in 2012 from \$63.0 million in 2011; sales of single-use products increased \$40.5 million (17.8%) to \$267.4 million in 2012 from \$226.9 million in 2011. In local currency, excluding the effects of the hedging program, sales of capital equipment increased 0.8% and single-use products increased 17.7%. Arthroscopy sales increased \$1.5 million (0.5%) in 2011 to \$289.9 million from \$288.4 million in 2010 due to higher procedure specific product sales offset by lower sales of our video imaging products for arthroscopy and general surgery. In local currency, excluding the effects of the hedging program, sales decreased 0.7%. Sales of capital equipment decreased \$12.2 million (-16.2%) to \$63.0 million in 2011 from \$75.2 million in 2010; sales of single-use products increased \$13.7 million (6.4%) to \$226.9 million in 2011 from \$213.2 million in 2010. In local currency, excluding the effects of the hedging program, sales of capital equipment decreased 17.0% while single-use products increased 5.1%.
- Powered surgical instrument sales increased \$2.1 million (1.4%) in 2012 to \$150.0 million from \$147.9 million in 2011 mainly driven by increases in our large bone burs and blades and small bone handpiece products. In local currency, excluding the effects of the hedging program, sales increased 1.3%. Sales of capital equipment decreased \$1.8 million (-2.6%) to \$67.6 million in 2012 from \$69.4 million in 2011; sales of single-use products increased \$3.9 million (5.0%) in 2012 to \$82.4 million compared to \$78.5 million in 2011. In local currency, excluding the effects of the hedging program, sales of capital equipment decreased 2.7% while single-use products increased 4.9%. Powered surgical instrument sales increased \$5.6 million (3.9%) in 2011 to \$147.9 million from \$142.3 million in 2010 mainly driven by increases in our large bone handpiece products. In local currency, excluding the effects of the hedging program sales increased 2.6%. Sales of capital equipment increased \$5.0 million (7.8%) to \$69.4 million in 2011 from \$64.4 million in 2010; sales of single-use products increased \$0.6 million (0.8%) in 2011 to \$78.5 million compared to \$77.9 million in 2010. In local currency, excluding the effects of the hedging program, sales of capital equipment increased 6.9% while single-use products decreased 0.9%.
- Electrosurgery sales decreased \$2.9 million (-2.9%) in 2012 to \$95.7 million from \$98.6 million in 2011 mainly due to lower

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

- Endosurgery sales remained relatively flat with a \$0.3 million (0.4%) increase in 2012 to \$74.0 million from \$73.7 million in 2011. In local currency, excluding the effects of the hedging program sales increased 0.1%. Endosurgery sales increased \$4.7 million (6.8%) in 2011 to \$73.7 million from \$69.0 million in 2010 mainly due to increased unit volumes of single-use products. In local currency, excluding the effects of the hedging program, sales increased 6.4%.
- Operating margins as a percentage of net sales decreased 2.0 percentage points to 12.6% in 2012 compared to 14.6% in 2011. The decrease in operating margins is principally a result of administrative consolidation expenses in our CONMED Linvatec operating segment, costs associated with the acquisition of our former distributor for the Nordic region of Europe, costs associated with a contractual dispute with a former distributor, higher selling expenses and costs associated with the purchase of Viking Systems, Inc. (3.0 percentage points). These increases are offset by higher gross margins mainly due to the distribution agreement with MTF (1.0 percentage points).
- Operating margins as a percentage of net sales increased 1.7 percentage points to 14.6% in 2011 compared to 12.9% in 2010. The increase in operating margins is primarily due to higher gross margins (1.0 percentage points) mainly driven by favorable foreign currency exchange rates on sales and product mix resulting from lower capital sales in our Arthroscopy product line and higher sales in our Endosurgery operating unit, lower research and development spending on our CONMED Linvatec products (0.3 percentage points) and lower overall selling and administrative expenses (0.4 percentage points).

CONMED Patient Care

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

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

- Patient Care sales decreased \$2.0 million (-3.0%) in 2012 to \$63.7 million compared to \$65.7 million in 2011 principally due

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

- Operating margins as a percentage of net sales increased 92.3 percentage points to -3.5% in 2012 compared to -95.8% in 2011. The increase in operating margins is primarily driven by the prior year including a \$60.3 million charge for the impairment of goodwill (91.9 percentage points) and \$0.6 million in administrative restructuring charges (0.9 percentage points), and lower research and development spending (1.4 percentage points) offset by decreases in gross margins mainly due to lower sales volumes (1.1 percentage points) and higher selling expenses (0.8 percentage points).
- Operating margins as a percentage of net sales decreased 95.7 percentage points to -95.8% in 2011 compared to -0.1% in 2010. The decrease in operating margins is primarily driven by the \$60.3 million charge for the impairment of goodwill (91.9 percentage points), \$0.6 million in administrative restructuring charges (0.9 percentage points) and decreases in gross margins mainly due to lower sales volumes (6.3 percentage points) offset by lower selling and administrative expenses (2.9 percentage points) and lower research and development spending (0.5 percentage points).

CONMED Endoscopic Technologies

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

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

- Endoscopic Technologies sales increased \$3.9 million (7.9%) in 2012 to \$53.2 million from \$49.3 million in 2011 due to higher sales across most product lines. In local currency, excluding the effects of the hedging program, sales increased 7.5%. Endoscopic Technologies sales increased \$0.8 million (1.6%) in 2011 to \$49.3 million from \$48.5 million in 2010 principally due to higher biliary and polypectomy sales. In local currency, excluding the effects of the hedging program, sales increased 1.2%.
- Operating margins as a percentage of net sales increased 4.5 percentage points to 5.1% in 2012 from 0.6% in 2011. The increase in operating margins of 4.5 percentage points in 2012 is primarily due to higher gross margins (1.1 percentage points), the prior year including \$0.2 million in administrative restructuring charges (0.4 percentage points) and lower overall selling and administrative expenses as a percentage of sales during 2012 (3.0 percentage points).
- Operating margins as a percentage of net sales increased 3.3 percentage points to 0.6% in 2011 from (-2.7%) in 2010. The increase in operating margins of 3.3 percentage points in 2011 is primarily due to overall lower selling and administrative expenses (2.8 percentage points), the prior year including a lease impairment charge related to the Chelmsford, Massachusetts facility (1.4 percentage points) and higher gross margins (0.6 percentage points) due to favorable foreign currency exchange rates on sales offset by increased spending in research and development (1.1 percentage points) and \$0.2 million in administrative restructuring charges during the first quarter of 2011 (0.4 percentage points).

Liquidity and Capital Resources

Our liquidity needs arise primarily from capital investments, working capital requirements and payments on indebtedness under the senior credit agreement. We have historically met these liquidity requirements with funds generated from operations and borrowings under our revolving credit facility. In addition, we have historically used term borrowings, including borrowings under the senior credit agreement and borrowings under separate loan facilities, in the case of real property purchases, to finance our acquisitions. We also have the ability to raise funds through the sale of stock or we may issue debt through a private placement or public offering.

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

Operating Cash Flows

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

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

Investing Cash Flows

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

Financing Cash Flows

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

Our senior credit agreement at December 31, 2012 consisted of a \$250.0 million revolving credit facility. There were \$153.0 million in borrowings outstanding on the revolving credit facility as of December 31, 2012. Our available borrowings on the revolving credit facility at December 31, 2012 were \$87.2 million with approximately \$9.8 million of the facility set aside for outstanding

letters of credit. As noted in Note 4 to the Consolidated Financial Statements, we entered into a distribution and development agreement with MTF on January 3, 2012 and used cash on hand and available borrowings under our revolving credit facility to fund the up front payment of \$63.0 million. We expect to fund the remaining \$84.0 million in contingent payments, including the \$34.0 million paid on January 3, 2013, through cash on hand and available borrowings under our revolving credit facility as these payments come due over the next four years.

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

On January 17, 2013, we entered into an amended and restated \$350.0 million senior credit agreement (the “amended and restated senior credit agreement”). The amended and restated senior credit agreement consists of a \$350.0 million revolving credit facility expiring on January 17, 2018. The amended and restated senior credit agreement was used to repay borrowings outstanding on the revolving credit facility under the then existing senior credit agreement. Initial interest rates are at LIBOR plus 1.50% or an alternative base rate. For those borrowings where the Company elects to use the alternative base rate, the base rate will be the greater of the Prime Rate, the Federal Funds Rate in effect on such date plus 0.50%, or the one month Eurocurrency rate plus 1%, plus 0.50%.

The senior credit agreement is collateralized by substantially all of our personal property and assets. The senior credit agreement contains covenants and restrictions which, among other things, require the maintenance of certain financial ratios, and restrict dividend payments and the incurrence of certain indebtedness and other activities, including acquisitions and dispositions. We were in full compliance with these covenants and restrictions as of December 31, 2012. We are also required, under certain circumstances, to make mandatory prepayments from net cash proceeds from any issuance of equity and asset sales.

We have a mortgage note outstanding in connection with the property and facilities utilized by our CONMED Linvatec subsidiary bearing interest at 8.25% per annum with semiannual payments of principal and interest through June 2019. The principal balance outstanding on the mortgage note aggregated \$8.6 million at December 31, 2012. The mortgage note is collateralized by the CONMED Linvatec property and facilities.

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

Our Board of Directors has authorized a \$200.0 million share repurchase program. Through December 31, 2012, we have repurchased a total of 4.1 million shares of common stock aggregating \$95.1 million under this authorization and have \$104.9 million remaining available for share repurchases. The repurchase program calls for shares to be purchased in the open market or in private transactions from time to time. We may suspend or discontinue the share repurchase program at any time. We repurchased \$3.9 million under the share repurchase program in 2012. We have financed the repurchases and may finance additional repurchases through operating cash flow and from available borrowings under our revolving credit facility.

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

Restructuring

During 2010, 2011 and 2012, we continued our operational restructuring plan which includes the transfer of additional production lines from manufacturing facilities located in the United States to our manufacturing facility in Chihuahua, Mexico. During the second quarter of 2012, we began the consolidation of our Finland operations into our Largo, Florida and Utica, New York manufacturing facilities. For the years ending December 31, 2010, 2011 and 2012, we charged \$2.4 million, \$3.5 million, and \$7.1 million, respectively, to cost of goods sold within our CONMED Linvatec operating segment. These costs include severance and other charges associated with the transfer of production to Mexico and consolidation of our Finland operations. We have recorded an accrual in current liabilities of \$3.6 million at December 31, 2012 mainly related to severance and lease impairment costs associated with the restructuring. We expect this phase of our plan and related cash payments to be substantially completed in 2013.

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

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

We plan to continue to restructure both operations and administrative functions as necessary throughout the organization. As the restructuring plan progresses, we will incur additional charges, including employee termination and other exit costs. We estimate restructuring costs will approximate \$8.0 million to \$10.0 million in 2013 and will be charged to cost of goods sold and other expense.

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

Contractual Obligations

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

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

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

Stock-based Compensation

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

New Accounting Pronouncements

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

Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Risk

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

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

We hedge forecasted intercompany sales denominated in foreign currencies through the use of forward contracts. We account for these forward contracts as cash flow hedges. To the extent these forward contracts meet hedge accounting criteria, changes in their fair value are not included in current earnings but are included in accumulated other comprehensive loss. These changes in fair value will be recognized into earnings as a component of sales or cost of sales when the forecasted transaction occurs. The notional contract amounts for forward contracts outstanding at December 31, 2012 which have been accounted for as cash flow hedges totaled \$90.3 million. Net realized gains (losses) recognized for forward contracts accounted for as cash flow hedges approximated \$2.0 million, \$(4.7) million and \$3.8 million for the years ended December 31, 2010, 2011, and 2012 respectively. Net unrealized losses on forward contracts outstanding which have been accounted for as cash flow hedges and which have been included in other comprehensive income totaled \$1.1 million at December 31, 2012. It is expected these unrealized losses will be recognized in the consolidated statement of comprehensive income in 2013.

We also enter into forward contracts to exchange foreign currencies for United States dollars in order to hedge our currency transaction exposures on intercompany receivables denominated in foreign currencies. These forward contracts settle each month at month-end, at which time we enter into new forward contracts. We have not designated these forward contracts as hedges and have not applied hedge accounting to them. The notional contract amounts for forward contracts outstanding at December 31, 2012 which have not been designated as hedges totaled \$47.3 million. Net realized gains (losses) recognized in connection with those forward contracts not accounted for as hedges approximated \$0.3 million, \$0.0 million and \$(2.1) million for the years ended December 31, 2010, 2011, and 2012, respectively, offsetting gains (losses) on our intercompany receivables of \$(0.7) million, \$(0.3) million and \$0.8 million for the years ended December 31, 2010, 2011, and 2012, respectively. These gains and losses have been recorded in selling and administrative expense in the consolidated statements of comprehensive income.

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

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

Interest Rate Risk

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

they did in 2012, our interest expense would decrease, and income before income taxes would increase by \$1.5 million.

Business Forward-Looking Statements

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

When used in this Annual Report, the words “estimate,” “project,” “believe,” “anticipate,” “intend,” “expect” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following:

- general economic and business conditions;
- changes in foreign exchange and interest rates;
- cyclical customer purchasing patterns due to budgetary and other constraints;
- changes in customer preferences;
- competition;
- changes in technology;
- the introduction and acceptance of new products;
- the ability to evaluate, finance and integrate acquired businesses, products and companies;
- changes in business strategy;
- the availability and cost of materials;
- the possibility that United States or foreign regulatory and/or administrative agencies may initiate enforcement actions against us or our distributors;
- future levels of indebtedness and capital spending;
- quality of our management and business abilities and the judgment of our personnel;
- the availability, terms and deployment of capital;
- the risk of litigation, especially patent litigation as well as the cost associated with patent and other litigation;
- the risk of a lack of allograft tissues due to reduced donations of such tissues or due to tissues not meeting the appropriate high standards for screening and/or processing of such tissues;
- changes in regulatory requirements; and
- various other factors referenced in this Annual Report.

Management's Report on Internal Control Over Financial Reporting

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



Joseph J. Corasanti
President and
Chief Executive Officer



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

To the Board of Directors and Shareholders of CONMED Corporation

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

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

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



PricewaterhouseCoopers LLP
Albany, New York
February 25, 2013



Consolidated Balance Sheets

December 31, 2011 and 2012

(In thousands except share and per share amounts)

	2011	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 26,048	\$ 23,720
Accounts receivable, less allowance for doubtful accounts of \$1,183 in 2011 and \$1,203 in 2012	135,641	139,124
Inventories	168,438	156,228
Income taxes receivable	—	191
Deferred income taxes	10,283	11,931
Prepaid expenses and other current assets	16,314	14,993
Total current assets	<u>356,724</u>	<u>346,187</u>
Property, plant and equipment, net	139,187	139,041
Deferred income taxes	2,389	1,057
Goodwill	234,815	256,821
Other intangible assets, net	195,531	190,809
Other assets	6,948	150,547
Total assets	<u>\$ 935,594</u>	<u>\$ 1,084,462</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 54,557	\$ 1,050
Accounts payable	21,162	23,622
Accrued compensation and benefits	31,142	33,511
Income taxes payable	6,470	—
Other current liabilities	17,853	64,325
Total current liabilities	<u>131,184</u>	<u>122,508</u>
Long-term debt	88,952	160,802
Deferred income taxes	92,785	107,518
Other long-term liabilities	49,602	86,636
Total liabilities	<u>362,523</u>	<u>477,464</u>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value \$.01 per share; authorized 500,000 shares, none issued or outstanding	—	—
Common stock, par value \$.01 per share; 100,000,000 authorized; 31,299,203 and 31,299,194 issued in 2011 and 2012, respectively	313	313
Paid-in capital	321,994	324,322
Retained earnings	354,439	377,907
Accumulated other comprehensive loss	(26,348)	(27,581)
Less: Treasury stock, at cost; 3,358,078 and 2,925,801 shares in 2011 and 2012, respectively	<u>(77,327)</u>	<u>(67,963)</u>
Total shareholders' equity	<u>573,071</u>	<u>606,998</u>
Total liabilities and shareholders' equity	<u>\$ 935,594</u>	<u>\$ 1,084,462</u>

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2010, 2011 and 2012

(In thousands except per share amounts)

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

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2010, 2011 and 2012

(In thousands)

	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Shareholders' Equity
	Shares	Amount					
Balance at December 31, 2009	<u>31,299</u>	<u>\$ 313</u>	<u>\$ 317,366</u>	<u>\$ 325,370</u>	<u>\$ (12,405)</u>	<u>\$ (54,129)</u>	<u>\$ 576,515</u>
Common stock issued under employee plans			(2,376)	(1,696)		5,791	1,719
Repurchase of treasury stock						(22,977)	(22,977)
Tax benefit arising from common stock issued under employee plans			227				227
Retirement of 2.50% convertible notes			(34)				(34)
Stock-based compensation			4,223				4,223
Comprehensive income (loss):							
Foreign currency translation adjustments					65		
Pension liability (net of income tax benefit of \$1,289)					(2,200)		
Cash flow hedging loss (net of income tax benefit of \$775)					(1,321)		
Net income				30,346			
Total comprehensive income							26,890
Balance at December 31, 2010	<u>31,299</u>	<u>\$ 313</u>	<u>\$ 319,406</u>	<u>\$ 354,020</u>	<u>\$ (15,861)</u>	<u>\$ (71,315)</u>	<u>\$ 586,563</u>
Common stock issued under employee plans			(3,849)	(333)		9,009	4,827
Repurchase of treasury stock						(15,021)	(15,021)
Tax benefit arising from common stock issued under employee plans			1,197				1,197
Stock-based compensation			5,240				5,240
Comprehensive income (loss):							
Foreign currency translation adjustments					(1,937)		
Pension liability (net of income tax benefit of \$7,482)					(12,768)		
Cash flow hedging gain (net of income tax expense of \$2,472)					4,218		
Net income				752			
Total comprehensive income (loss)							(9,735)
Balance at December 31, 2011	<u>31,299</u>	<u>\$ 313</u>	<u>\$ 321,994</u>	<u>\$ 354,439</u>	<u>\$ (26,348)</u>	<u>\$ (77,327)</u>	<u>\$ 573,071</u>
Common stock issued under employee plans			(4,377)			13,287	8,910
Repurchase of treasury stock						(3,923)	(3,923)
Tax benefit arising from common stock issued under employee plans			1,052				1,052
Stock-based compensation			5,653				5,653
Dividends on common stock				(17,013)			(17,013)
Comprehensive income (loss):							
Foreign currency translation adjustments					1,995		
Pension liability (net of income tax expense of \$512)					875		
Cash flow hedging loss (net of income tax benefit of \$2,404)					(4,103)		
Net income				40,481			
Total comprehensive income							39,248
Balance at December 31, 2012	<u>31,299</u>	<u>\$ 313</u>	<u>\$ 324,322</u>	<u>\$ 377,907</u>	<u>\$ (27,581)</u>	<u>\$ (67,963)</u>	<u>\$ 606,998</u>

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2010, 2011 and 2012

(In thousands)

	2010	2011	2012
Cash flows from operating activities:			
Net income	\$ 30,346	\$ 752	\$ 40,481
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	17,392	18,519	18,635
Amortization of debt discount	4,244	3,903	—
Amortization, all other	20,171	20,265	27,981
Stock-based compensation	4,223	5,240	5,653
Deferred income taxes	13,158	(13,098)	12,946
Sale of accounts receivable to (collections on behalf of) purchaser	(29,000)	—	—
Income tax benefit of stock option exercises	227	1,197	1,052
Excess tax benefit from stock option exercises	(485)	(1,363)	(1,206)
Loss on early extinguishment of debt	79	—	—
Impairment of goodwill	—	60,302	—
Increase (decrease) in cash flows from changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	9,342	8,464	1,687
Inventories	(20,317)	(7,850)	3,810
Accounts payable	(4,645)	2,649	259
Income taxes	(692)	4,838	(6,497)
Accrued compensation and benefits	2,516	1,673	767
Other assets	332	(4,243)	(1,210)
Other liabilities	(8,648)	1,745	(9,159)
	<u>7,897</u>	<u>102,241</u>	<u>54,718</u>
Net cash provided by operating activities	<u>38,243</u>	<u>102,993</u>	<u>95,199</u>
Cash flows from investing activities:			
Payments related to business acquisitions and distribution agreements, net of cash acquired	(5,289)	(4,191)	(86,253)
Proceeds from sale of property	—	—	1,836
Purchases of property, plant and equipment	(14,732)	(17,552)	(21,532)
Net cash used in investing activities	<u>(20,021)</u>	<u>(21,743)</u>	<u>(105,949)</u>
Cash flows from financing activities:			
Net proceeds from common stock issued under employee plans	2,452	6,117	10,165
Repurchase of common stock	(22,977)	(15,021)	(3,923)
Excess tax benefit from stock option exercises	485	1,363	1,206
Payments on senior credit agreement	(1,350)	(1,350)	(53,588)
Proceeds of senior credit agreement	12,000	58,000	73,000
Payments on mortgage notes	(824)	(894)	(969)
Payments on senior subordinated notes	(2,933)	(111,766)	(100)
Payments related to issuance of debt	(2,525)	—	—
Dividends paid on common stock	—	—	(12,862)
Other, net	66	(3,148)	(1,576)
Net cash provided by (used in) financing activities	<u>(15,606)</u>	<u>(66,699)</u>	<u>11,353</u>
Effect of exchange rate changes on cash and cash equivalents	(297)	(920)	(2,931)
Net increase (decrease) in cash and cash equivalents	2,319	13,631	(2,328)
Cash and cash equivalents at beginning of year	10,098	12,417	26,048
Cash and cash equivalents at end of year	<u>\$ 12,417</u>	<u>\$ 26,048</u>	<u>\$ 23,720</u>
Non-cash financing activities:			
Dividends payable	\$ —	\$ —	\$ 4,256
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 6,025	\$ 5,797	\$ 5,038
Income taxes	3,257	4,760	10,953

See notes to consolidated financial statements.

Note 1 — Operations and Significant Accounting Policies

Organization and operations

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

Principles of consolidation

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

Use of estimates

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

Cash and cash equivalents

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

Inventories

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

We write-off excess and obsolete inventory resulting from the inability to sell our products at prices in excess of current carrying costs. We make estimates regarding the future recoverability of the costs of our products and record a provision for excess and obsolete inventories based on historical experience, expiration of sterilization dates and expected future trends.

Property, plant and equipment

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

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

Goodwill and other intangible assets

We have a history of growth through acquisitions. Assets and liabilities of acquired businesses are recorded at their estimated fair

values as of the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. We have accumulated goodwill of \$256.8 million and other intangible assets of \$190.8 million as of December 31, 2012.

In accordance with FASB guidance, goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to at least annual impairment testing. It is our policy to perform our annual impairment testing in the fourth quarter. The identification and measurement of goodwill impairment involves the estimation of the fair value of our reporting units. Estimates of fair value are based on the best information available as of the date of the assessment, which primarily incorporate management assumptions about expected future cash flows and other valuation techniques. Future cash flows may be affected by changes in industry or market conditions or the rate and extent to which anticipated synergies or cost savings are realized with newly acquired entities. During 2012, we completed our goodwill impairment testing with data as of October 1, 2012. We adopted the Step 0 qualitative impairment test in accordance with ASC 350 whereby we assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Our last goodwill impairment testing, performed as of October 1, 2011, under the Step 1 method for our CONMED Electrosurgery, CONMED Endosurgery and CONMED Linvatec reporting units, utilized CONMED Corporation’s EBITDA multiple adjusted for a market-based control premium with the resultant fair values exceeding carrying values by 42% to 107%. Based upon our qualitative assessment, we believe the fair value of these reporting units continue to exceed carrying values by a substantial margin.

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

Intangible assets with a finite life are amortized over the estimated useful life of the asset and are evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The carrying amount of an intangible asset subject to amortization is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset. An impairment loss is recognized by reducing the carrying amount of the intangible asset to its current fair value.

Customer relationship assets arose principally as a result of the 1997 acquisition of Linvatec Corporation. These assets represent the

acquisition date fair value of existing customer relationships based on the after-tax income expected to be derived during their estimated remaining useful life. The useful lives of these customer relationships were not and are not limited by contract or any economic, regulatory or other known factors. The estimated useful life of the Linvatec customer relationship assets was determined as of the date of acquisition as a result of a study of the observed pattern of historical revenue attrition during the 5 years immediately preceding the acquisition of Linvatec Corporation. This observed attrition pattern was then applied to the existing customer relationships to derive the future expected retirement of the customer relationships. This analysis indicated an annual attrition rate of 2.6%. Assuming an exponential attrition pattern, this equated to an average remaining useful life of approximately 38 years for the Linvatec customer relationship assets. Customer relationship intangible assets arising as a result of other business acquisitions are being amortized over a weighted average life of 15 years. The weighted average life for customer relationship assets in aggregate is 33 years.

We evaluate the remaining useful life of our customer relationship intangible assets each reporting period in order to determine whether events and circumstances warrant a revision to the remaining period of amortization. In order to further evaluate the remaining useful life of our customer relationship intangible assets, we perform an analysis and assessment of actual customer attrition and activity as events and circumstances warrant. This assessment includes a comparison of customer activity since the acquisition date and review of customer attrition rates. In the event that our analysis of actual customer attrition rates indicates a level of attrition that is in excess of that which was originally contemplated, we would change the estimated useful life of the related customer relationship asset with the remaining carrying amount amortized prospectively over the revised remaining useful life.

We test our customer relationship assets for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Factors specific to our customer relationship assets which might lead to an impairment charge include a significant increase in the annual customer attrition rate or otherwise significant loss of customers, significant decreases in sales or current-period operating or cash flow losses or a projection or forecast of losses. We do not believe that there have been events or changes in circumstances which would indicate the carrying amount of our customer relationship assets might not be recoverable.

For all other indefinite lived intangible assets, we perform a Step 0 qualitative impairment test in accordance with ASC 350. Based upon this assessment, we have determined that it is unlikely that our indefinite lived intangible assets are impaired.

Other long-lived assets

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

Fair value of financial instruments

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

Translation of foreign currency financial statements

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

Foreign exchange and hedging activity

We manage our foreign currency transaction risks through the use of forward contracts to hedge forecasted cash flows associated with foreign currency transaction exposures. We account for these forward contracts as cash flow hedges. To the extent these forward contracts meet hedge accounting criteria, changes in their fair value are not included in current earnings but are included in accumulated other comprehensive loss. These changes in fair value will be reclassified into earnings as a component of sales or cost of sales when the forecasted transaction occurs.

We also enter into forward contracts to exchange foreign currencies for United States dollars in order to hedge our currency transaction exposures on intercompany receivables denominated in foreign currencies. These forward contracts settle each month at month-end, at which time we enter into new forward contracts. We have not designated these forward contracts as hedges and have not applied hedge accounting to them. We record these forward contracts at fair value with resulting gains and losses included in selling and administrative expense in the consolidated statements of comprehensive income.

Income taxes

Deferred income tax assets and liabilities are based on the difference between the financial statement and tax basis of assets and liabilities and operating loss and tax credit carryforwards as measured by the enacted tax rates that are anticipated to be in effect in the respective jurisdictions when these differences reverse. The deferred income tax provision generally represents the net change in the assets and liabilities for deferred income taxes. A valuation allowance is established when it is necessary to reduce deferred income tax assets to amounts for which realization is likely. In assessing the need for a valuation allowance, we estimate future taxable income, considering the feasibility of ongoing tax planning strategies and the realizability of tax loss carryforwards. Valuation allowances related to deferred tax assets may be impacted by changes to tax laws, changes to statutory tax rates and ongoing and future taxable income levels.

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

Revenue recognition

Revenue is recognized when title has been transferred to the customer which is at the time of shipment. The following policies apply to our major categories of revenue transactions:

- Sales to customers are evidenced by firm purchase orders. Title and the risks and rewards of ownership are transferred to the customer when product is shipped under our stated shipping terms. Payment by the customer is due under fixed payment terms.

- We place certain of our capital equipment with customers on a loaned basis in return for commitments to purchase related single-use products over time periods generally ranging from one to three years. In these circumstances, no revenue is recognized upon capital equipment shipment as the equipment is loaned and subject to return if certain minimum single-use purchases are not met. Revenue is recognized upon the sale and shipment of the related single-use products. The cost of the equipment is amortized over its estimated useful life.
- Service revenues earned by the Company related to the sale of sports medicine allograft tissue are recorded in accordance with the contractual terms of our agreement with Musculoskeletal Transplant Foundation (“MTF”). These revenues are recorded net of amortization of the acquired assets.
- Product returns are only accepted at the discretion of the Company and in accordance with our “Returned Goods Policy”. Historically the level of product returns has not been significant. We accrue for sales returns, rebates and allowances based upon an analysis of historical customer returns and credits, rebates, discounts and current market conditions.
- Our terms of sale to customers generally do not include any obligations to perform future services. Limited warranties are provided for capital equipment sales and provisions for warranty are provided at the time of product sale based upon an analysis of historical data.
- Amounts billed to customers related to shipping and handling have been included in net sales. Shipping and handling costs included in selling and administrative expense were \$12.1 million, \$13.0 million and \$12.8 million for 2010, 2011 and 2012, respectively.
- We sell to a diversified base of customers around the world and, therefore, believe there is no material concentration of credit risk.
- We assess the risk of loss on accounts receivable and adjust the allowance for doubtful accounts based on this risk assessment. Historically, losses on accounts receivable have not been material. Management believes that the allowance for doubtful accounts of \$1.2 million at December 31, 2012 is adequate to provide for probable losses resulting from accounts receivable.

Earnings and dividends per share

Basic earnings per share (“basic EPS”) is computed by dividing net income by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share (“diluted EPS”) gives effect to all dilutive potential shares outstanding resulting from employee stock options, restricted stock units, performance share units and stock appreciation rights (“SARs”) during the period. The following table sets forth the computation of basic and diluted earnings per share at December 31, 2010, 2011 and 2012, respectively:

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

The shares used in the calculation of diluted EPS exclude options

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

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

Stock-based compensation

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

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

Accumulated other comprehensive loss

Accumulated other comprehensive loss consists of the following:

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

Note 2 — Inventories

Inventories consist of the following at December 31,:

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

Note 3 — Property, Plant and Equipment

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

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

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

2013	\$ 7,128
2014	5,787
2015	5,001
2016	3,531
2017	3,275
Thereafter	8,027

Note 4 — Goodwill and Other Intangible Assets

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

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

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

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

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

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

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

Other intangible assets consist of the following:

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

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

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

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

On January 3, 2012, the Company entered into a Sports Medicine Joint Development and Distribution Agreement (the "JDDA") with Musculoskeletal Transplant Foundation ("MTF") to obtain (i) MTF's worldwide promotional rights with respect to allograft tissues within the field of sports medicine, and (ii) an exclusive license to an autograft (patient's own) blood Platelet-Rich Plasma ("PRP") therapy technology and products (collectively, the "Transaction"). The initial consideration from the Company included a \$63.0 million up-front payment for the rights and certain assets, with an additional \$84.0 million contingently payable over a four year period depending on MTF meeting supply targets. On January 3, 2013, we paid \$34.0 million of the additional consideration; \$16.7 million of the additional consideration is due within the next fiscal year with the remainder due in equal installments in each year thereafter. At December 31, 2012, the gross carrying amount of this arrangement amounted to \$149.4 million and the related accumulated

amortization was \$6.0 million. This has been recorded in other assets and is being amortized on a straight line basis over the 25 year term of the JDDA. Amortization expense is recorded as a reduction to sales. The \$84.0 million related to the contingent payment was accrued in other current and other long term liabilities as we believe it is probable MTF will meet the supply targets.

Amortization expense related to intangible assets for the year ending December 31, 2012 and estimated amortization expense for each of the five succeeding years is as follows:

2012	\$ 7,807
2013	7,836
2014	7,211
2015	6,821
2016	6,719
2017	6,707

Note 5 — Long-Term Debt

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

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

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

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

The senior credit agreement is collateralized by substantially all of our personal property and assets. The senior credit agreement contains covenants and restrictions which, among other things, require the maintenance of certain financial ratios, and restrict dividend payments and the incurrence of certain indebtedness and

other activities, including acquisitions and dispositions. We are also required, under certain circumstances, to make mandatory prepayments from net cash proceeds from any issuance of equity and asset sales.

As further described in Note 17, on January 17, 2013, we entered into an amended and restated \$350.0 million senior credit agreement (the “amended and restated senior credit agreement”). The amended and restated senior credit agreement consists of a \$350.0 million revolving credit facility expiring on January 17, 2018.

We have a mortgage note outstanding in connection with the property and facilities utilized by our CONMED Linvatec subsidiary bearing interest at 8.25% per annum with semiannual payments of principal and interest through June 2019. The principal balance outstanding on the mortgage note aggregated \$8.6 million at December 31, 2012. The mortgage note is collateralized by the CONMED Linvatec property and facilities.

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

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

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

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

Note 6 — Income Taxes

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

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

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

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

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

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

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

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

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

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

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

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

The Company is subject to taxation in the United States and various states and foreign jurisdictions. Taxing authority examinations can involve complex issues and may require an extended period of time to resolve. Our Federal income tax returns have been examined by the Internal Revenue Service ("IRS") for calendar years ending through 2011.

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

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

	2010	2011	2012
Balance as of January 1,	\$ 1,869	\$ 1,330	\$ 2,343
Increases for positions taken in prior periods	52	283	30
Increases for positions taken in current periods	166	789	1,129
Decreases in unrecorded tax positions related to settlement with the taxing authorities	(757)	—	(1,857)
Decreases in unrecorded tax positions related to lapse of statute of limitations	—	(59)	(58)
Balance as of December 31,	\$ 1,330	\$ 2,343	\$ 1,587

If the total unrecognized tax benefits of \$1.6 million at December 31, 2012 were recognized, it would reduce our annual effective tax rate. The amount of interest accrued in 2012 related

to these unrecognized tax benefits was not material and is included in the provision for income taxes in the consolidated statements of comprehensive income. It is reasonably possible that the amount of unrecognized tax benefits, each of which are individually insignificant, could change in the next 12 months as a result of the anticipated completion of taxing authority examinations and lapse of statute of limitations. The range of change in unrecognized tax benefits is estimated between \$0.0 million and \$1.1 million.

Note 7 — Shareholders' Equity

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

Our Board of Directors has authorized a \$200.0 million share repurchase program. Through December 31, 2012, we have repurchased a total of 4.1 million shares of common stock aggregating \$95.1 million under this authorization and have \$104.9 million remaining available for share repurchases. The repurchase program calls for shares to be purchased in the open market or in private transactions from time to time. We may suspend or discontinue the share repurchase program at any time. During 2012, we repurchased 0.1 million shares for an aggregate cost of \$3.9 million. During 2011, we repurchased 0.7 million shares for an aggregate cost of \$15.0 million. During 2010, we repurchased 1.2 million shares for an aggregate cost of \$23.0 million.

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

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

The Company uses the Black-Scholes option pricing model to estimate the fair value of options and SARs at the date of grant. Use of a valuation model requires management to make certain assumptions with respect to select model inputs. Expected volatilities are based upon historical volatility of the Company's stock over a period equal to the expected life of each option and SAR grant. The risk free interest rate is based on the option and SAR grant date

for a traded U.S. Treasury bond with a maturity date closest to the expected life. The expected annual dividend yield is based on the Company's anticipated cash dividend payouts. The expected life represents the period of time that the options and SARs are expected to be outstanding based on a study of historical data of option holder exercise and termination behavior.

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

	2010	2011	2012
Fair value of options & SARs	\$ 7.72	\$ 10.43	\$ 7.38
Expected stock price volatility	36.72%	35.52%	35.84%
Risk-free interest rate	2.07%	1.59%	0.62%
Expected annual dividend yield	—%	—%	2.00%
Expected life of options (years)	6.4	6.3	6.4

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

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

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

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

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

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

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

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

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

of CONMED common stock through the exercise of stock options granted by the Company at a purchase price equal to 95% of the fair market value of the common stock on the exercise date. During 2012, we issued approximately 20,775 shares of common stock under the Employee Plan. No stock-based compensation expense has been recognized in the accompanying consolidated financial statements as a result of common stock issuances under the Employee Plan.

Note 8 — Business Segments and Geographic Areas

CONMED conducts its business through five principal operating segments, CONMED Endoscopic Technologies, CONMED Endosurgery, CONMED Electrosurgery, CONMED Linvatec and CONMED Patient Care. We believe each of our segments are similar in the nature of products, production processes, customer base, distribution methods and regulatory environment. Our CONMED Endosurgery, CONMED Electrosurgery and CONMED Linvatec operating segments also have similar economic characteristics and therefore qualify for aggregation. Our CONMED Patient Care and CONMED Endoscopic Technologies operating segments do not qualify for aggregation since their economic characteristics do not meet the criteria for aggregation as a result of the lower overall operating income (loss) in these segments.

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

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

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

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

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

	2010	2011	2012
CONMED Linvatec, Electrosurgery, and Endosurgery	\$ 77,271	\$ 89,093	\$ 81,848
CONMED Patient Care	(38)	(62,878)	(2,210)
CONMED Endoscopic Technologies	(1,315)	273	2,738
Corporate	<u>(18,825)</u>	<u>(18,214)</u>	<u>(17,166)</u>
Income from operations	57,093	8,274	65,210
Loss on early extinguishment of debt	79	—	—
Amortization of debt discount	4,244	3,903	—
Interest expense	<u>7,113</u>	<u>6,676</u>	<u>5,730</u>
Income (loss) before income taxes	<u>\$ 45,657</u>	<u>\$ (2,305)</u>	<u>\$ 59,480</u>

Net sales information for geographic areas consists of the following:

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

Sales are attributed to countries based on the location of the customer. There were no significant investments in long-lived assets located outside the United States at December 31, 2011 and 2012.

No single customer represented over 10% of our consolidated net sales for the years ended December 31, 2010, 2011 and 2012.

Note 9 — Employee Benefit Plans

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

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

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

	2011	2012
Accumulated Benefit Obligation	\$ 82,289	\$ 85,363
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 66,136	\$ 82,289
Service cost	281	277
Interest cost	3,519	3,429
Actuarial loss	15,305	2,790
Benefits paid	(2,952)	(3,422)
Projected benefit obligation at end of year	\$ 82,289	\$ 85,363
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 55,309	\$ 51,822
Actual gain (loss) on plan assets	(2,145)	5,866
Employer contributions	1,610	8,497
Benefits paid	(2,952)	(3,422)
Fair value of plan assets at end of year	\$ 51,822	\$ 62,763
Funded status	\$ (30,467)	\$ (22,600)

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

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

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

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

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

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

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

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

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

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

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

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

In determining the expected return on pension plan assets, we consider the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. In addition, we consult with financial and investment management professionals in developing appropriate targeted rates of return.

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

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

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

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

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

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

FASB guidance, defines fair value, establishes a framework for measuring fair value and related disclosure requirements. A valuation hierarchy was established for disclosure of the inputs to the valuations used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from or

corroborated by observable market data through correlation. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

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

Common Stock:	Common stock is valued at the closing price reported on the common stock's respective stock exchange and is classified within level 1 of the valuation hierarchy.
Money Market Fund:	These investments are public investment vehicles valued using \$1 for the Net Asset Value (NAV). The money market fund is classified within level 2 of the valuation hierarchy.
Mutual Funds:	These investments are public investment vehicles valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market and is classified within level 1 of the valuation hierarchy.
Fixed Income Securities:	Valued at the closing price reported on the active market on which the individual securities are traded and are classified within level 1 of the valuation hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

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

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

The following table summarizes the benefits expected to be paid by our pension plan in each of the next five years and in aggregate for the following five years. The expected benefit payments are estimated based on the same assumptions used to measure the

Company's projected benefit obligation at December 31, 2012 and reflect the impact of expected future employee service.

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

Note 10 — Legal Matters

From time to time, we are a defendant in certain lawsuits alleging product liability, patent infringement, or other claims incurred in the ordinary course of business. Likewise, from time to time, the Company may receive a subpoena from a government agency such as the Securities and Exchange Commission, Equal Employment Opportunity Commission, the Occupational Safety and Health Administration, the Department of Labor, the Treasury Department, or other federal and state agencies or foreign governments or government agencies. These subpoenas may or may not be routine inquiries, or may begin as routine inquiries and over time develop into enforcement actions of various types. The product liability claims are generally covered by various insurance policies, subject to certain deductible amounts, maximum policy limits and certain exclusions in the respective policies or required as a matter of law. In some cases we may be entitled to indemnification by third parties. When there is no insurance coverage, as would typically be the case primarily in lawsuits alleging patent infringement or in connection with certain government investigations, or indemnification obligations of a third party, we establish reserves sufficient to cover probable losses associated with such claims. We do not expect that the resolution of any pending claims or investigations will have a material adverse effect on our financial condition, results of operations or cash flows. There can be no assurance, however, that future claims or investigations, or the costs associated with responding to such claims or investigations, especially claims and investigations not covered by insurance, will not have a material adverse effect on our financial condition, results of operations or cash flows.

Manufacturers of medical products may face exposure to significant product liability claims. To date, we have not experienced any product liability claims that have been material to our financial statements or condition, but any such claims arising in the future could have a material adverse effect on our business or results of operations. We currently maintain commercial product liability insurance of \$25 million per incident and \$25 million in the aggregate annually, which we believe is adequate. This coverage is on a claims-made basis. There can be no assurance that claims will not exceed insurance coverage, that the carriers will be solvent or that such insurance will be available to us in the future at a reasonable cost.

Our operations are subject, and in the past have been subject, to a number of environmental laws and regulations governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater remediation and employee health and safety. In some jurisdictions environmental requirements may be expected to become more stringent in the future. In the United States certain environmental laws can impose liability for the entire cost of site restoration upon each of the parties that may have contributed to conditions at the site regardless of fault or the lawfulness of the

party's activities. While we do not believe that the present costs of environmental compliance and remediation are material, there can be no assurance that future compliance or remedial obligations would not have a material adverse effect on our financial condition, results of operations or cash flows.

In September 2012, Bonutti Skeletal Innovations, LLC, filed a complaint in the United States District Court for the Middle District of Florida against CONMED and CONMED Linvatec. The Complaint asserts that certain CONMED Linvatec products infringe patents allegedly owned by Bonutti Skeletal Innovations. On the same day that it sued CONMED, Bonutti Skeletal Innovations sued several other orthopedic companies. CONMED and CONMED Linvatec believe that the products in question do not infringe the patents-in-suit, and CONMED and CONMED Linvatec intend to vigorously defend the claims. A range of potential losses cannot be estimated at this time.

Note 11 — Other Expense

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

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

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

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

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

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

During 2012, we incurred legal costs related to a contractual dispute with a former distributor. The dispute was resolved in the second quarter of 2012. We incurred costs totaling \$1.6 million.

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

Note 12 — Guarantees

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

Changes in the carrying amount of service and product warranties for the year ended December 31, are as follows:

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

Note 13 — Fair Value Measurement

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

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

Foreign Currency Forward Contracts. We hedge forecasted intercompany sales denominated in foreign currencies through the use of forward contracts. We account for these forward contracts as cash flow hedges. To the extent these forward contracts meet hedge accounting criteria, changes in their fair value are not included in current earnings but are included in accumulated other comprehensive loss. These changes in fair value will be recognized into earnings as a component of sales or cost of sales when the forecasted transaction occurs. The notional contract amounts for forward contracts outstanding at December 31, 2012 which have been accounted for as cash flow hedges totaled \$90.3 million. Net realized gains (losses) recognized for forward contracts accounted for as cash flow hedges approximated \$2.0 million, \$(4.7) million and \$3.8 million for the years ended December 31, 2010, 2011, and 2012, respectively. Net unrealized losses on forward contracts outstanding which have been accounted for as cash flow hedges and which have been included in other comprehensive income totaled \$1.1 million at December 31, 2012. It is expected these unrealized losses will be recognized in the consolidated statement of comprehensive income in 2013.

We also enter into forward contracts to exchange foreign currencies for United States dollars in order to hedge our currency transaction exposures on intercompany receivables denominated in foreign currencies. These forward contracts settle each month at month-end, at which time we enter into new forward contracts. We have not designated these forward contracts as hedges and have not applied hedge accounting to them. The notional contract amounts for forward contracts outstanding at December 31, 2012 which have not been designated as hedges totaled \$47.3 million. Net realized gains (losses) recognized in connection with those forward contracts not accounted for as hedges approximated \$0.3 million, \$0.0 million and \$(2.1) million for the years ended December 31, 2010, 2011, and 2012, respectively, offsetting gains (losses) on our intercompany receivables of \$(0.7) million, \$(0.3) million and \$0.8 million for the years ended December 31, 2010, 2011, and 2012, respectively. These gains and losses have been recorded in selling and administrative expense in the consolidated statements of comprehensive income.

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

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

December 31, 2012	Asset Balance Sheet Location	Fair Value	Liabilities Balance Sheet Location	Fair Value	Net Fair Value
Derivatives designated as hedged instruments:					
Foreign exchange contracts	Other current liabilities	\$ (457)	Other current liabilities	\$ 2,249	\$ 1,792
Derivatives not designated as hedging instruments:					
Foreign exchange contracts	Other current liabilities	—	Other current liabilities	150	150
Total derivatives		\$ (457)		\$ 2,399	\$ 1,942

Our forward foreign exchange contracts are subject to a master netting agreement and qualify for netting in the consolidated balance sheets. Accordingly, at December 31, 2011 and December 31, 2012 we have recorded the net fair value of \$4.7 million in prepaids and other current assets and \$1.9 million in other current liabilities, respectively.

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

Valuation Hierarchy. A valuation hierarchy was established for disclosure of the inputs to the valuations used to measure fair value. This hierarchy prioritizes the inputs into three broad levels

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

Valuation Techniques. Assets and liabilities carried at fair value and measured on a recurring basis as of December 31, 2012 consist of forward foreign exchange contracts. The value of the forward foreign exchange contract assets and liabilities and the Notes were determined within Level 2 of the valuation hierarchy and are listed in the table above.

The carrying amounts reported in our balance sheets for cash and cash equivalents, accounts receivable, accounts payable and long-term debt excluding the 2.50% convertible senior subordinated notes approximate fair value. The fair value of the Notes approximated \$0.3 million and \$0.2 million at December 31, 2011 and December 31, 2012, respectively, based on their quoted market price. See Note 5 for additional discussion of the Notes.

Note 14 — New Accounting Pronouncements

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

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

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

In February 2013, the FASB issued Accounting Standards Update, Comprehensive Income (Topic 220): Presentation of Items Reclassified out of Accumulated Other Comprehensive Income. This guidance requires enhanced disclosures relating to reclassifications out of accumulated other comprehensive income. This guidance is effective for interim and annual periods beginning after December 15, 2012. The implementation of this new guidance

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

Note 15 — Restructuring

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

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

During 2008, we announced a plan to restructure certain of our operations. During 2010, 2011 and 2012, we continued our operational restructuring plan which includes the transfer of additional production lines from manufacturing facilities located in the United States to our manufacturing facility in Chihuahua, Mexico. During the second quarter of 2012, we began the consolidation of our Finland operations into our Largo, Florida and Utica, New York manufacturing facilities. For the years ending December 31, 2010, 2011 and 2012, we charged \$2.4 million, \$3.5 million, and \$7.1 million, respectively, to cost of goods sold within our CONMED Linvatec operating segment. These costs include severance and other charges associated with the transfer of production to Mexico and consolidation of our Finland operations. We have recorded an accrual in current liabilities of \$3.6 million at December 31, 2012 mainly related to severance and lease impairment costs associated with the restructuring. We expect this phase of our plan and related cash payments to be substantially completed in 2013.

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

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

Note 16 – Business Acquisition

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

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

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

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

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

The unaudited pro forma statements of operations for the years ended December 31, 2011 and 2012, assuming the Viking acquisition occurred as of January 1, 2011 are presented below. These pro forma statements of operations have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the Viking acquisition occurred on the dates indicated, or which may result in the future.

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

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

Note 17 – Subsequent Events

On January 17, 2013, we entered into an amended and restated \$350.0 million senior credit agreement (the “amended and restated senior credit agreement”). The amended and restated senior credit agreement consists of a \$350.0 million revolving credit facility expiring on January 17, 2018. The amended and restated senior credit agreement was used to repay borrowings outstanding on the revolving credit facility under the then existing senior credit agreement.

Note 18 — Selected Quarterly Financial Data (Unaudited)

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

Three Months Ended

2011	March	June	September	December
Net sales	\$ 183,450	\$ 183,236	\$ 172,814	\$ 185,577
Gross profit	95,716	91,455	91,311	96,452
Net income (loss)	8,995	8,680	8,211	(25,134)
EPS: Basic	.32	.31	.29	(.90)
Diluted	.31	.30	.29	(.90)
2012	March	June	September	December
Net sales	\$ 194,316	\$ 189,695	\$ 181,885	\$ 201,244
Gross profit	100,911	99,732	97,913	107,287
Net income	9,968	10,296	9,320	10,897
EPS: Basic	.36	.36	.33	.38
Diluted	.35	.36	.32	.38

Items Included In Selected Quarterly Financial Data:

2011

First Quarter

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

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

Second Quarter

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

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

Third Quarter

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

Fourth Quarter

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

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

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

2012

First Quarter

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

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

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

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

Second Quarter

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

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

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

Third Quarter

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

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

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

Fourth Quarter

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

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

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

Board of Directors



1. Eugene R. Corasanti is Vice Chairman of the Company and Chairman of the Board of Directors. Mr. Eugene Corasanti also served as the Company's Chief Executive Officer from its founding until 2006, as well as President and Chief Operating Officer from its founding until August 1999. Prior to the founding of the Company, Mr. Eugene Corasanti was an independent public accountant. Mr. Eugene Corasanti holds a B.B.A. degree in Accounting from Niagara University. Eugene R. Corasanti's son, Joseph J. Corasanti, is President and Chief Executive Officer and a Director of the Company.

2. Joseph J. Corasanti has served as President and Chief Executive Officer since January 1, 2007, having served as President and Chief Operating Officer from August 1999 through December 2006. Mr. Joseph Corasanti has been a Director of the Company since May 1994. Mr. Joseph Corasanti is also on the Board of Directors of II-VI, Inc. (NASDAQ: IIVI) and is a member of the audit committee. He previously served as General Counsel and Vice President-Legal Affairs, and Executive Vice-President/General Manager of the Company. Prior to that time he was an Associate Attorney with the law firm of Morgan, Wenzel & McNicholas, Los Angeles, California. Mr. Joseph Corasanti is admitted to the State Bar of New York and California. Mr. Joseph Corasanti holds a B.A. degree in Political Science from Hobart College and a J.D. degree from Whittier College School of Law. Joseph J. Corasanti is the son of Eugene R. Corasanti, Vice Chairman and Chairman of the Board of Directors.

3. Bruce F. Daniels has served as a Director of the Company since August 1992. Mr. Daniels is a retired executive. From August 1974 to June 1997, Mr. Daniels held various executive positions, including a position as Controller with Chicago Pneumatic Tool Company. Mr. Daniels holds a B.S. degree in Business from Utica College of Syracuse University. Mr. Daniels is the Chairman of the Audit Committee, and also serves on the Compensation Committee.

4. Jo Ann Golden joined the Board of Directors in May 2003. Ms. Golden is a certified public accountant and through her retirement in July 2012 was the managing partner of the New Hartford, NY office of Dermody Burke and Brown, CPAs, LLC. Ms. Golden is also on the Board of Directors of the Bank of Utica. Ms. Golden is past President of the New York State Society of CPAs and the New York State Society's Foundation for Accounting Education. She also served as Secretary and Vice President of the State Society and was a member of the governing Council of the American Institute of Certified Public Accountants, where she served on the Global Credential Survey Task Force in 2001. Ms. Golden holds a B.A. degree from the State University College at New Paltz, and a B.S. degree in Accounting from Utica College of Syracuse University. Ms. Golden serves on the Audit Committee.

5. Stephen M. Mandia has served as a Director of the Company since July 2002. He is the President of Mandia International Trading Corp. Mr. Mandia also has served as Chairman of the Board of Directors of Sovena USA, formerly East Coast Olive Oil Corp., now a subsidiary of Sovena Group since January 1, 2010 and currently serves as the Chairman of the Board of Eva Gourmet. He previously served as Chief Executive Officer of Sovena USA from 1991 to December 31, 2009. Mr. Mandia holds a B.S. degree from Bentley College, having also undertaken undergraduate studies at Richmond College in London. Mr. Mandia is the Chairman of the Corporate Governance and Nominating Committee, and also serves on the Compensation Committee.

6. Stuart J. Schwartz has served as a Director of the Company since May 1998. Dr. Schwartz is a retired physician. From 1969 to December 1997 he was engaged in private practice as a urologist. Dr. Schwartz holds a B.A. degree from Cornell University and an M.D. degree from SUNY Upstate Medical College, Syracuse. Dr. Schwartz is the Chairman of the Compensation Committee, and also serves on the Corporate Governance and Nominating Committee.

7. Mark E. Tryniski has served as a Director of the Company since May 2007 and the Lead Independent Director since May 2009. He is the President and Chief Executive Officer of Community Bank System, Inc. (NYSE:CBU), where he served as Executive Vice President and Chief Operating Officer from February 2004 through August 2006. From June 2003 through February 2004, Mr. Tryniski was the Chief Financial Officer. Prior to joining Community Bank in June 2003, Mr. Tryniski was a partner with PricewaterhouseCoopers LLP. Mr. Tryniski also serves on the Board of Directors of the Independent Bankers Association of New York State. Mr. Tryniski holds a B.S. degree from the State University of New York at Oswego. Mr. Tryniski serves on the Audit Committee as well as the Corporate Governance and Nominating Committee.

Corporate Officers

Joseph J. Corasanti, Esq.

President & Chief Executive Officer

William W. Abraham

Executive Vice President, Business Development

Terence M. Bergé

Corporate Vice President, Treasurer & Assistant Controller

Heather L. Cohen, Esq.

Executive Vice President, Human Resources, Deputy General Counsel & Secretary

Joseph G. Darling

Executive Vice President, Commercial Operations

Daniel S. Jonas, Esq.

Executive Vice President, Legal Affairs & General Counsel

Gregory R. Jones

Executive Vice President, Quality Assurance/Regulatory Affairs

Luke A. Pomilio

Executive Vice President, Controller & Corporate General Manager

Robert D. Shallish, Jr.

Executive Vice President, Finance & Chief Financial Officer

Mark D. Snyder

Executive Vice President, Manufacturing Operations & Supply Chain

Stock

CONMED Corporation's stock is traded on the NASDAQ Global Select Stock Market with the symbol: CNMD

Independent Registered Public Accounting Firm
PricewaterhouseCoopers LLP

677 Broadway
Albany, NY 12207

General Counsel
Daniel S. Jonas, Esq.
525 French Road
Utica, NY 13502

Special Counsel
Sullivan & Cromwell, LLP
125 Broad Street
New York, NY 10004

Shareholder Information

Interested shareholders may obtain a copy of the Company's Annual Report without charge upon written request to:

Investor Relations Department
CONMED Corporation
525 French Road
Utica, NY 13502

Transfer Agent/Registrar
Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016
800-368-5948
www.rtco.com

Corporate Office

CONMED Corporation
525 French Road
Utica, NY 13502
Phone (315) 797-8375
Fax (315) 797-0321
Customer Service
1-800-448-6506
email: info@conmed.com
website: www.conmed.com

Ethics Policy
Available at www.conmed.com



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