

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

or

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

For the quarterly period ended  
September 30, 2021

Commission File Number  
001-39218

**CONMED CORPORATION**

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

**Delaware**

(State or other jurisdiction of incorporation or organization)

**16-0977505**

(I.R.S. Employer Identification No.)

**11311 Concept Blvd Largo, Florida**  
(Address of principal executive offices)

**33773**  
(Zip Code)

**(727) 392-6464**

(Registrant's telephone number, including area code)

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

Title of each class  
Common Stock, \$0.01 par value

Trading Symbol  
CNMD

Name of each exchange on which registered  
NYSE

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

Yes  No

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Smaller reporting company  Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of registrant's common stock, as of October 25, 2021 is 29,247,120 shares.

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**CONMED CORPORATION**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2021**  
**PART I FINANCIAL INFORMATION**

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## PART I FINANCIAL INFORMATION

## Item 1.

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net sales	\$ 248,827	\$ 237,835	\$ 736,665	\$ 609,631
Cost of sales	106,521	104,137	324,485	284,845
Gross profit	142,306	133,698	412,180	324,786
Selling and administrative expense	104,736	94,380	307,476	274,721
Research and development expense	10,859	9,936	32,203	28,756
Operating expenses	115,595	104,316	339,679	303,477
Income from operations	26,711	29,382	72,501	21,309
Interest expense	8,145	11,943	27,917	32,938
Other expense	1,127	89	1,127	266
Income (loss) before income taxes	17,439	17,350	43,457	(11,895)
Provision for income taxes	2,491	10,500	5,359	2,728
Net income (loss)	<u>\$ 14,948</u>	<u>\$ 6,850</u>	<u>\$ 38,098</u>	<u>\$ (14,623)</u>
Comprehensive income (loss)	<u>\$ 13,756</u>	<u>\$ 8,976</u>	<u>\$ 42,242</u>	<u>\$ (16,858)</u>

*Per share data:*

Net income (loss)				
Basic	\$ 0.51	\$ 0.24	\$ 1.31	\$ (0.51)
Diluted	0.47	0.23	1.19	(0.51)
Weighted average common shares				
Basic	29,179	28,583	29,097	28,529
Diluted	32,143	29,426	32,020	28,529

See notes to consolidated condensed financial statements.

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

	September 30, 2021	December 31, 2020
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 31,511	\$ 27,356
Accounts receivable, net	165,433	177,152
Inventories	228,572	194,868
Prepaid expenses and other current assets	17,889	17,278
<b>Total current assets</b>	<b>443,405</b>	<b>416,654</b>
Property, plant and equipment, net	109,181	111,407
Goodwill	617,651	618,440
Other intangible assets, net	478,861	501,537
Other assets	104,994	103,635
<b>Total assets</b>	<b>\$ 1,754,092</b>	<b>\$ 1,751,673</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 12,251	\$ 18,415
Accounts payable	46,596	53,310
Accrued compensation and benefits	54,632	50,171
Other current liabilities	69,713	68,305
<b>Total current liabilities</b>	<b>183,192</b>	<b>190,201</b>
Long-term debt	703,335	735,221
Deferred income taxes	58,940	57,875
Other long-term liabilities	52,942	59,338
<b>Total liabilities</b>	<b>998,409</b>	<b>1,042,635</b>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value \$0.01 per share; authorized 500,000 shares; none outstanding	—	—
Common stock, par value \$0.01 per share; 100,000,000 shares authorized; 31,299,194 shares issued in 2021 and 2020, respectively	313	313
Paid-in capital	394,810	382,628
Retained earnings	478,035	457,417
Accumulated other comprehensive loss	(59,537)	(63,681)
Less: 2,064,390 and 2,410,045 shares of common stock in treasury, at cost in 2021 and 2020, respectively	(57,938)	(67,639)
<b>Total shareholders' equity</b>	<b>755,683</b>	<b>709,038</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,754,092</b>	<b>\$ 1,751,673</b>

See notes to consolidated condensed financial statements.

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

	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Shareholders' Equity
	Shares	Amount					
Balance at December 31, 2020	31,299	\$ 313	\$ 382,628	\$ 457,417	\$ (63,681)	\$ (67,639)	709,038
Common stock issued under employee plans			2,944			5,271	8,215
Stock-based compensation			3,387				3,387
Dividends on common stock (\$0.20 per share)				(5,813)			(5,813)
Comprehensive income (loss):							
Cash flow hedging gain, net					3,926		
Pension liability, net					631		
Foreign currency translation adjustments					(3,674)		
Net income				9,860			
Total comprehensive income							10,743
Balance at March 31, 2021	31,299	\$ 313	\$ 388,959	\$ 461,464	\$ (62,798)	\$ (62,368)	725,570
Common stock issued under employee plans			414			2,312	2,726
Stock-based compensation			4,290				4,290
Dividends on common stock (\$0.20 per share)				(5,830)			(5,830)
Comprehensive income (loss):							
Cash flow hedging gain, net					1,221		
Pension liability, net					631		
Foreign currency translation adjustments					2,601		
Net income				13,290			
Total comprehensive income							17,743
Balance at June 30, 2021	31,299	\$ 313	\$ 393,663	\$ 468,924	\$ (58,345)	\$ (60,056)	744,499
Common stock issued under employee plans			(3,180)			2,118	(1,062)
Stock-based compensation			4,327				4,327
Dividends on common stock (\$0.20 per share)				(5,837)			(5,837)
Comprehensive income (loss):							
Cash flow hedging gain, net					2,917		
Pension liability, net					631		
Foreign currency translation adjustments					(4,740)		
Net income				14,948			
Total comprehensive income							13,756
Balance at September 30, 2021	31,299	\$ 313	\$ 394,810	\$ 478,035	\$ (59,537)	\$ (57,938)	755,683

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

See notes to consolidated condensed financial statements.

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

	Nine Months Ended	
	September 30,	
	2021	2020
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 38,098	\$ (14,623)
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>		
Depreciation	12,519	13,617
Amortization of debt discount	7,611	7,239
Amortization of deferred debt issuance costs	2,946	2,697
Amortization	40,747	40,973
Stock-based compensation	12,003	10,119
Deferred income taxes	(1,311)	(786)
Loss on early extinguishment of debt	899	—
<b>Increase (decrease) in cash flows from changes in assets and liabilities:</b>		
Accounts receivable	9,890	21,574
Inventories	(34,679)	(19,396)
Accounts payable	(6,223)	1,477
Accrued compensation and benefits	5,030	(8,864)
Other assets	(15,915)	(6,013)
Other liabilities	6,370	(3,628)
Net cash provided by operating activities	<u>77,985</u>	<u>44,386</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of a facility	—	3,227
Purchases of property, plant and equipment	(11,678)	(9,864)
Payments related to business and asset acquisitions, net of cash acquired	—	(3,852)
Net cash used in investing activities	<u>(11,678)</u>	<u>(10,489)</u>
<b>Cash flows from financing activities:</b>		
Payments on term loan	(63,673)	(9,938)
Proceeds from term loan	52,411	—
Payments on revolving line of credit	(272,753)	(142,000)
Proceeds from revolving line of credit	236,753	152,000
Payments related to contingent consideration	(3,536)	(2,071)
Payments related to debt issuance costs	(2,000)	(2,057)
Dividends paid on common stock	(17,418)	(17,099)
Other, net	9,457	(3,730)
Net cash used in financing activities	<u>(60,759)</u>	<u>(24,895)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(1,393)</u>	<u>740</u>
Net increase in cash and cash equivalents	4,155	9,742
Cash and cash equivalents at beginning of period	<u>27,356</u>	<u>25,856</u>
Cash and cash equivalents at end of period	<u>\$ 31,511</u>	<u>\$ 35,598</u>
<b>Non-cash investing and financing activities:</b>		
Dividends payable	\$ 5,837	\$ 5,720

See notes to consolidated condensed financial statements.

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

**Note 1 – Operations**

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

**Note 2 - Interim Financial Information**

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. The information herein reflects all normal recurring material adjustments, which are, in the opinion of management, necessary to fairly present the results for the periods presented. The consolidated condensed financial statements herein consist of all wholly-owned domestic and foreign subsidiaries with all significant intercompany transactions eliminated. Results for the period ended September 30, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021.

The consolidated condensed financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2020 included in our Annual Report on Form 10-K.

**Use of Estimates**

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

Due to the COVID-19 pandemic, there has been uncertainty and disruption in the global economy and financial markets. We are not aware of any specific event or circumstance that would require an update to our estimates or judgments or a revision of the carrying value of our assets or liabilities as of October 28, 2021, the date of issuance of this Quarterly Report on Form 10-Q. These estimates may change, as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions.



**Note 3 - Revenues**

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

	Three Months Ended September 30, 2021			Three Months Ended September 30, 2020		
	Orthopedic Surgery	General Surgery	Total	Orthopedic Surgery	General Surgery	Total
<b>Primary Geographic Markets</b>						
United States	\$ 37,957	\$ 98,444	\$ 136,401	\$ 38,913	\$ 95,292	\$ 134,205
Europe, Middle East & Africa	24,155	19,905	44,060	23,104	17,584	40,688
Asia Pacific	27,517	16,113	43,630	26,403	15,405	41,808
Americas (excluding the United States)	16,122	8,614	24,736	13,767	7,367	21,134
Total sales from contracts with customers	<u>\$ 105,751</u>	<u>\$ 143,076</u>	<u>\$ 248,827</u>	<u>\$ 102,187</u>	<u>\$ 135,648</u>	<u>\$ 237,835</u>

<b>Timing of Revenue Recognition</b>						
Goods transferred at a point in time	\$ 96,389	\$ 141,798	\$ 238,187	\$ 93,000	\$ 134,745	\$ 227,745
Services transferred over time	9,362	1,278	10,640	9,187	903	10,090
Total sales from contracts with customers	<u>\$ 105,751</u>	<u>\$ 143,076</u>	<u>\$ 248,827</u>	<u>\$ 102,187</u>	<u>\$ 135,648</u>	<u>\$ 237,835</u>

	Nine Months Ended September 30, 2021			Nine Months Ended September 30, 2020		
	Orthopedic Surgery	General Surgery	Total	Orthopedic Surgery	General Surgery	Total
<b>Primary Geographic Markets</b>						
United States	\$ 115,864	\$ 288,069	\$ 403,933	\$ 97,339	\$ 243,137	\$ 340,476
Europe, Middle East & Africa	77,327	58,594	135,921	62,726	50,345	113,071
Asia Pacific	80,403	44,911	125,314	66,737	34,211	100,948
Americas (excluding the United States)	47,215	24,282	71,497	35,152	19,984	55,136
Total sales from contracts with customers	<u>\$ 320,809</u>	<u>\$ 415,856</u>	<u>\$ 736,665</u>	<u>\$ 261,954</u>	<u>\$ 347,677</u>	<u>\$ 609,631</u>

<b>Timing of Revenue Recognition</b>						
Goods transferred at a point in time	\$ 291,728	\$ 412,298	\$ 704,026	\$ 237,224	\$ 345,068	\$ 582,292
Services transferred over time	29,081	3,558	32,639	24,730	2,609	27,339
Total sales from contracts with customers	<u>\$ 320,809</u>	<u>\$ 415,856</u>	<u>\$ 736,665</u>	<u>\$ 261,954</u>	<u>\$ 347,677</u>	<u>\$ 609,631</u>

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

	September 30, 2021	December 31, 2020
Contract liability	<u>\$ 15,833</u>	<u>\$ 13,666</u>

Revenue recognized during the nine months ended September 30, 2021 and September 30, 2020 from amounts included in contract liabilities at the beginning of the period were \$8.4 million and \$7.6 million, respectively. There were no material contract assets as of September 30, 2021 and December 31, 2020.

**Note 4 – Comprehensive Income (Loss)**

Comprehensive income (loss) consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss)	\$ 14,948	\$ 6,850	\$ 38,098	\$ (14,623)
Other comprehensive income (loss):				
Cash flow hedging gain (loss), net of income tax (income tax expense (benefit) of \$929 and \$(964) for the three months ended September 30, 2021 and 2020, respectively, and \$2,568 and \$(972) for the nine months ended September 30, 2021 and 2020, respectively)	2,917	(3,026)	8,064	(3,050)
Pension liability, net of income tax (income tax expense of \$201 and \$170 for the three months ended September 30, 2021 and 2020, respectively, and \$603 and \$510 for the nine months ended September 30, 2021 and 2020, respectively)	631	535	1,893	1,605
Foreign currency translation adjustment	(4,740)	4,617	(5,813)	(790)
Comprehensive income (loss)	\$ 13,756	\$ 8,976	\$ 42,242	\$ (16,858)

Accumulated other comprehensive loss consists of the following:

	Cash Flow Hedging Gain (Loss)	Pension Liability	Cumulative Translation Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2020	\$ (5,945)	\$ (36,620)	\$ (21,116)	\$ (63,681)
Other comprehensive income (loss) before reclassifications, net of tax	5,141	—	(5,813)	(672)
Amounts reclassified from accumulated other comprehensive income (loss) before tax <sup>a</sup>	3,854	2,496	—	6,350
Income tax	(931)	(603)	—	(1,534)
Net current-period other comprehensive income (loss)	8,064	1,893	(5,813)	4,144
Balance, September 30, 2021	\$ 2,119	\$ (34,727)	\$ (26,929)	\$ (59,537)
Balance, December 31, 2019	\$ 493	\$ (31,691)	\$ (28,079)	\$ (59,277)
Other comprehensive income (loss) before reclassifications, net of tax	(1,916)	—	(790)	(2,706)
Amounts reclassified from accumulated other comprehensive income (loss) before tax <sup>a</sup>	(1,496)	2,115	—	619
Income tax	362	(510)	—	(148)
Net current-period other comprehensive income (loss)	(3,050)	1,605	(790)	(2,235)
Balance, September 30, 2020	\$ (2,557)	\$ (30,086)	\$ (28,869)	\$ (61,512)

(a) The cash flow hedging gain (loss) and pension liability accumulated other comprehensive income (loss) components are included in sales or cost of sales and as a component of net periodic pension cost, respectively. Refer to Note 5 and Note 11, respectively, for further details.

**Note 5 – Fair Value of Financial Instruments**

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

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

**Foreign Currency Forward Contracts.** We hedge forecasted intercompany sales denominated in foreign currencies through the use of forward contracts. We account for these forward contracts as cash flow hedges. To the extent these forward contracts meet hedge accounting criteria, changes in their fair value are not included in current earnings but are included in accumulated other comprehensive loss. These changes in fair value will be recognized into earnings as a component of sales or cost of sales when the forecasted transaction occurs.

We also enter into forward contracts to exchange foreign currencies for United States dollars in order to hedge our currency transaction exposures on intercompany receivables designated in foreign currencies. These forward contracts settle each month at month-end, at which time we enter into new forward contracts. We have not designated these forward contracts as hedges and have not applied hedge accounting to them.

The following table presents the notional contract amounts for forward contracts outstanding:

	FASB ASC Topic 815 Designation	As of	
		September 30, 2021	December 31, 2020
Forward exchange contracts	Cash flow hedge	\$ 178,908	\$ 154,504
Forward exchange contracts	Non-designated	37,254	42,380

The remaining time to maturity as of September 30, 2021 is within two years for hedge designated foreign exchange contracts and approximately one month for non-hedge designated forward exchange contracts.

Statement of comprehensive income (loss) presentation
*Derivatives designated as cash flow hedges*

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

Derivative Instrument	Amount of Gain (Loss) Recognized in AOCI		Consolidated Condensed Statements of Comprehensive Income (Loss)		Amount of Gain (Loss) Reclassified from AOCI		
	Three Months Ended September 30,						
	2021	2020	Location of amount reclassified	Total Amount of Line Item Presented		2021	2020
		2021		2020			
Foreign exchange contracts	\$ 3,188	\$ (3,542)	Net Sales	\$ 248,827	\$ 237,835	\$ (1,077)	\$ 663
			Cost of Sales	106,521	104,137	419	(215)
Pre-tax gain (loss)	\$ 3,188	\$ (3,542)				\$ (658)	\$ 448
Tax expense (benefit)	770	(856)				(159)	108
Net gain (loss)	\$ 2,418	\$ (2,686)				\$ (499)	\$ 340

Derivative Instrument	Amount of Gain (Loss) Recognized in AOCI		Consolidated Condensed Statements of Comprehensive Income (Loss)		Amount of Gain (Loss) Reclassified from AOCI		
	Nine Months Ended September 30,						
	2021	2020	Location of amount reclassified	Total Amount of Line Item Presented		2021	2020
		2021		2020			
Foreign exchange contracts	\$ 6,778	\$ (2,526)	Net Sales	\$ 736,665	\$ 609,631	\$ (4,948)	\$ 2,206
			Cost of Sales	324,485	284,845	1,094	(710)
Pre-tax gain (loss)	\$ 6,778	\$ (2,526)				\$ (3,854)	\$ 1,496
Tax expense (benefit)	1,637	(610)				(931)	362
Net gain (loss)	\$ 5,141	\$ (1,916)				\$ (2,923)	\$ 1,134

At September 30, 2021, \$1.5 million of net unrealized gains on forward contracts accounted for as cash flow hedges, and included in accumulated other comprehensive loss, are expected to be recognized in earnings in the next twelve months.

*Derivatives not designated as cash flow hedges*

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

Derivative Instrument	Location on Consolidated Condensed Statements of Comprehensive Income (Loss)	Three Months Ended September 30,		Nine Months Ended September 30,	
		2021	2020	2021	2020
Net loss on currency forward contracts	Selling and administrative expense	\$ (48)	\$ (682)	\$ (398)	\$ (1,224)
Net gain (loss) on currency transaction exposures	Selling and administrative expense	\$ (441)	\$ 312	\$ (1,320)	\$ 143

Balance sheet presentation

We record these forward foreign exchange contracts at fair value. The following tables summarize the fair value for forward foreign exchange contracts outstanding at September 30, 2021 and December 31, 2020:

September 30, 2021	Location on Consolidated Condensed Balance Sheet	Asset Fair Value	Liabilities Fair Value	Net Fair Value
Derivatives designated as hedged instruments:				
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 3,319	\$ (1,311)	\$ 2,008
Foreign exchange contracts	Other long-term assets	932	(145)	787
		<u>\$ 4,251</u>	<u>\$ (1,456)</u>	<u>\$ 2,795</u>
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	Other current liabilities	21	(160)	(139)
<b>Total derivatives</b>		<u>\$ 4,272</u>	<u>\$ (1,616)</u>	<u>\$ 2,656</u>

December 31, 2020	Location on Consolidated Condensed Balance Sheet	Asset Fair Value	Liabilities Fair Value	Net Fair Value
Derivatives designated as hedged instruments:				
Foreign exchange contracts	Other current liabilities	\$ 1,500	\$ (8,826)	\$ (7,326)
Foreign exchange contracts	Other long-term liabilities	23	(535)	(512)
		<u>\$ 1,523</u>	<u>\$ (9,361)</u>	<u>\$ (7,838)</u>
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	Other current liabilities	25	(150)	(125)
<b>Total derivatives</b>		<u>\$ 1,548</u>	<u>\$ (9,511)</u>	<u>\$ (7,963)</u>

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

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

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

**Valuation Techniques.** Assets and liabilities carried at fair value and measured on a recurring basis as of September 30, 2021 consist of forward foreign exchange contracts. The Company values its forward foreign exchange contracts using quoted prices for similar assets. The most significant assumption is quoted currency rates. The value of the forward foreign exchange contract assets and liabilities were valued using Level 2 inputs and are listed in the table above.

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

#### **Note 6 - Inventories**

Inventories consist of the following:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Raw materials	\$ 76,637	\$ 71,807
Work-in-process	17,658	15,864
Finished goods	134,277	107,197
Total	<u>\$ 228,572</u>	<u>\$ 194,868</u>

#### **Note 7 – Earnings (Loss) Per Share**

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

The following table sets forth the computation of basic and diluted earnings (loss) per share for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss)	\$ 14,948	\$ 6,850	\$ 38,098	\$ (14,623)
Basic – weighted average shares outstanding	29,179	28,583	29,097	28,529
Effect of dilutive potential securities	2,964	843	2,923	—
Diluted – weighted average shares outstanding	32,143	29,426	32,020	28,529
Net income (loss) (per share)				
Basic	\$ 0.51	\$ 0.24	\$ 1.31	\$ (0.51)
Diluted	0.47	0.23	1.19	(0.51)

The shares used in the calculation of diluted EPS exclude options and SARs to purchase shares where the exercise price was greater than the average market price of common shares for the period and the effect of the inclusion would be anti-dilutive. Such shares aggregated approximately 0.7 million and 0.5 million for the three and nine months ended September 30, 2021, respectively, and 1.6 million for the three months ended September 30, 2020. As the Company was in a net loss position for the nine months ended September 30, 2020, there were no anti-dilutive shares. Our 2.625% convertible notes due in 2024 (the “Notes”) are convertible under certain circumstances, as defined in the indenture, into a combination of cash and CONMED common stock.

The following is intended to describe the impact of the Notes and related hedge transactions on the calculation of diluted EPS. Additional shares to be issued pursuant to the terms of the Notes and related hedge transactions, if any, would occur at maturity.

The calculation of diluted EPS includes potential diluted shares upon conversion of the Notes when the average market price per share of our common stock for the period is greater than the conversion price of the Notes of \$88.80. We intend to settle in cash the principal outstanding and use the treasury stock method when calculating their potential dilutive effect, if any.

During the three and nine months ended September 30, 2021, our average share price exceeded the conversion price of the Notes and we included in our diluted share count 1.2 million shares, for both periods, assumed to be issued if the Notes were converted. During the three and nine months ended September 30, 2020, our average share price had not exceeded the conversion price of the Notes; therefore, under the net share settlement method, there were no potential shares issuable under the Notes to be used in the calculation of diluted EPS.

We previously entered into convertible notes hedge transactions to increase the effective conversion price of the Notes to \$114.92. However, our convertible notes hedges are not included when calculating potential dilutive shares since their effect is always anti-dilutive.

Concurrently with entering into the hedge transactions, we also previously entered into warrant transactions under which we agreed to sell shares of our common stock at \$114.92.

The calculation of diluted EPS also includes potential diluted shares to be issued under the warrants when the average market price per share of our common stock for the period is greater than \$114.92. During the three and nine months ended September 30, 2021, our average share price exceeded \$114.92 and we therefore included in our diluted share count an additional 0.5 million and 0.4 million shares, respectively, assumed to be issued under the warrants. During the three and nine months ended September 30, 2020, our average share price had not exceeded \$114.92; therefore, there were no potential shares issuable under the warrants to be used in the calculation of diluted EPS.

**Note 8 – Goodwill and Other Intangible Assets**

The changes in the net carrying amount of goodwill for the nine months ended September 30, 2021 are as follows:

Balance as of December 31, 2020	\$ 618,440
Foreign currency translation	(789)
Balance as of September 30, 2021	<u>\$ 617,651</u>

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 consist of the following:

	September 30, 2021			December 31, 2020	
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Intangible assets with definite lives:</b>	22				
Customer and distributor relationships	24	\$ 342,501	\$ (148,330)	\$ 342,639	\$ (134,555)
Sales representation, marketing and promotional rights	25	149,376	(58,500)	149,376	(54,000)
Developed technology	16	106,604	(24,801)	106,604	(19,705)
Patents and other intangible assets	16	75,836	(50,369)	73,516	(48,882)
<b>Intangible assets with indefinite lives:</b>					
Trademarks and tradenames		86,544	—	86,544	—
		<u>\$ 760,861</u>	<u>\$ (282,000)</u>	<u>\$ 758,679</u>	<u>\$ (257,142)</u>

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

Amortization expense related to intangible assets which are subject to amortization totaled \$8.3 million and \$8.6 million in the three months ended September 30, 2021 and 2020, respectively, and \$24.9 million and \$25.6 million in the nine months ended September 30, 2021 and 2020, respectively, and is included as a reduction of revenue (for amortization related to our sales representation, marketing and promotional rights) and in selling and administrative expense (for all other intangible assets) in the consolidated condensed statements of comprehensive income (loss). Included in developed technology is \$3.5 million of earn-out consideration that was paid during the third quarter of 2021 and an additional accrual of \$2.4 million of earn-out consideration that is considered probable as of September 30, 2021 associated with a prior asset acquisition. This is recorded in other current liabilities at September 30, 2021.



The estimated intangible asset amortization expense remaining for the year ending December 31, 2021 and for each of the five succeeding years is as follows:

	Amortization included in expense	Amortization recorded as a reduction of revenue	Total
Remaining, 2021	\$ 7,187	\$ 1,500	\$ 8,687
2022	26,554	6,000	32,554
2023	25,679	6,000	31,679
2024	24,929	6,000	30,929
2025	25,145	6,000	31,145
2026	24,652	6,000	30,652

#### **Note 9 - Long-Term Debt**

Long-term debt consists of the following:

	September 30, 2021	December 31, 2020
Revolving line of credit	\$ 171,000	\$ 207,000
Term loan, net of deferred debt issuance costs of \$1,448 and \$1,668 in 2021 and 2020, respectively	229,102	240,145
2.625% convertible notes, net of deferred debt issuance costs of \$4,144 and \$5,475 in 2021 and 2020, respectively, and unamortized discount of \$26,009 and \$33,620 in 2021 and 2020, respectively	314,846	305,904
Financing leases	638	587
<b>Total debt</b>	<b>715,586</b>	<b>753,636</b>
Less: Current portion	12,251	18,415
<b>Total long-term debt</b>	<b>\$ 703,335</b>	<b>\$ 735,221</b>

On July 16, 2021, we entered into a seventh amended and restated senior credit agreement consisting of: (a) a \$233.5 million term loan facility and (b) a \$585.0 million revolving credit facility. The revolving credit facility will terminate and the loans outstanding under the term loan facility will expire on July 16, 2026. The term loan is payable in quarterly installments increasing over the term of the facility. Proceeds from the term loan facility and borrowings under the revolving credit facility were used to repay the then existing senior credit agreement. Interest rates are at LIBOR (subject to 0.125% floor) plus an interest rate margin of 1.50% (1.625% at September 30, 2021). For borrowings where we elect to use the alternate base rate, the initial base rate is the greatest of (i) the Prime Rate, (ii) the Federal Funds Rate plus 0.50% or (iii) the one-month Adjusted LIBOR plus 1.00%, plus, in each case, an interest rate margin.

There were \$230.5 million in borrowings outstanding on the term loan facility as of September 30, 2021. There were \$171.0 million in borrowings outstanding under the revolving credit facility as of September 30, 2021. Our available borrowings on the revolving credit facility at September 30, 2021 were \$411.5 million with approximately \$2.5 million of the facility set aside for outstanding letters of credit.

The seventh amended and restated senior credit agreement is collateralized by substantially all of our personal property and assets. The seventh amended and restated senior credit agreement contains covenants and restrictions which, among other things, require the maintenance of certain financial ratios and restrict dividend payments and the incurrence of certain indebtedness and other activities, including acquisitions and dispositions. We were in full compliance with these covenants and restrictions as of September 30, 2021. We are also required, under certain circumstances, to make mandatory prepayments from net cash proceeds from any issuance of equity and asset sales.

On January 29, 2019, we issued \$345.0 million in 2.625% convertible notes due in 2024 (the "Notes"). Interest is payable semi-annually in arrears on February 1 and August 1 of each year, commencing August 1, 2019. The Notes will mature on February 1, 2024, unless earlier repurchased or converted. The Notes represent subordinated unsecured obligations and are convertible under certain circumstances, as defined in the indenture, into a combination of cash and CONMED common

stock. The Notes may be converted at an initial conversion rate of 11.2608 shares of our common stock per \$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately \$88.80 per share of common stock). Holders of the Notes may convert the Notes at their option at any time on or after November 1, 2023 through the second scheduled trading day preceding the maturity date. Holders of the Notes will also have the right to convert the Notes prior to November 1, 2023, but only upon the occurrence of specified events. The conversion rate is subject to anti-dilution adjustments if certain events occur. A portion of the net proceeds from the offering of the Notes were used as part of the financing for the Buffalo Filter acquisition and \$21.0 million were used to pay the cost of certain convertible notes hedge transactions as further described below.

Our effective borrowing rate for nonconvertible debt at the time of issuance of the Notes was estimated to be 6.14%, which resulted in \$51.6 million of the \$345.0 million aggregate principal amount of Notes issued, or \$39.1 million after taxes, being attributable to equity. For the three months ended September 30, 2021 and 2020, we have recorded interest expense related to the amortization of debt discount on the Notes of \$2.6 million and \$2.4 million, respectively, and for the nine months ended September 30, 2021 and 2020, we have recorded interest expense related to the amortization of debt discount on the Notes of \$7.6 million and \$7.2 million, respectively, at the effective interest rate of 6.14%. The debt discount on the Notes is being amortized through February 2024. For both the three months ended September 30, 2021 and 2020, we have recorded interest expense on the Notes of \$2.3 million and for both the nine months ended September 30, 2021 and 2020, we have recorded interest expense on the Notes of \$6.8 million at the contractual coupon rate of 2.625%.

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

The convertible note hedge transactions are expected generally to reduce the potential dilution upon conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be, in the event that the market price per share of our common stock, as measured under the terms of the convertible note hedge transactions, is greater than the strike price of the convertible note hedge transactions, which initially corresponds to the conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes. If, however, the market price per share of our common stock, as measured under the terms of the warrant transactions, exceeds the strike price (\$114.92) of the warrants, there would nevertheless be dilution to the extent that such market price exceeds the strike price of the warrants as noted in Note 7, unless we elect to settle the warrants in cash.

The scheduled maturities of long-term debt outstanding at September 30, 2021 are as follows:

Remaining 2021	\$	2,981
2022		11,925
2023		14,906
2024		365,869
2025		23,850
2026		327,018

The above amounts exclude debt discount, deferred debt issuance costs and financing leases.

#### **Note 10 – Guarantees**

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

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

	<b>2021</b>	<b>2020</b>
Balance as of January 1,	\$ 1,826	\$ 2,186
Provision for warranties	1,235	616
Claims made	(683)	(932)
Balance as of September 30,	<u>\$ 2,378</u>	<u>\$ 1,870</u>

Costs associated with extended warranty repairs are recorded as incurred and amounted to \$5.2 million and \$4.4 million for the nine months ended September 30, 2021 and 2020, respectively.

**Note 11 – Pension Plan**

Net periodic pension cost consists of the following:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Service cost	\$ 248	\$ 179	\$ 744	\$ 537
Interest cost on projected benefit obligation	451	639	1,353	1,917
Expected return on plan assets	(1,289)	(1,255)	(3,867)	(3,765)
Net amortization and deferral	<u>832</u>	<u>705</u>	<u>2,496</u>	<u>2,115</u>
Net periodic pension cost	<u>\$ 242</u>	<u>\$ 268</u>	<u>\$ 726</u>	<u>\$ 804</u>

We do not expect to make any pension contributions during 2021. Non-service cost of \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2020, respectively, is included in other expense in the consolidated condensed statements of comprehensive income (loss). Non-service pension cost was immaterial for the three and nine months ended September 30, 2021.

**Note 12 – Acquisition and Other Expense**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Plant underutilization costs	\$ —	\$ —	\$ —	\$ 6,586
Product rationalization costs - inventory	—	—	—	2,169
Restructuring costs	—	—	—	1,087
Manufacturing consolidation costs	—	606	—	3,993
Acquisition and integration costs	—	796	—	2,253
Acquisition and other expense included in cost of sales	<u>\$ —</u>	<u>\$ 1,402</u>	<u>\$ —</u>	<u>\$ 16,088</u>
Restructuring and related costs	\$ —	\$ 1,009	\$ 414	\$ 3,133
Product rationalization costs - field inventory	—	—	—	2,095
Acquisition and integration costs	—	—	—	1,192
Acquisition and other expense included in selling and administrative expense	<u>\$ —</u>	<u>\$ 1,009</u>	<u>\$ 414</u>	<u>\$ 6,420</u>
Debt refinancing costs included in other expense	<u>\$ 1,127</u>	<u>\$ —</u>	<u>\$ 1,127</u>	<u>\$ —</u>

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

During the nine months ended September 30, 2020, we performed an analysis of our product lines and determined certain catalog numbers, principally related to capital equipment, would be discontinued and consolidated into existing product offerings. We consequently recorded a \$2.2 million charge to cost of sales to write-off inventory of the discontinued products. In addition, we incurred \$2.1 million in costs related to the write-off of field inventory used for customer demonstration and evaluation of the discontinued products which we charged to selling and administrative expense.

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

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

During the three and nine months ended September 30, 2020, we incurred costs for inventory step-up adjustments and other costs of \$0.8 million and \$2.3 million, respectively, related to a previous acquisition, which were charged to cost of sales.

During the three and nine months ended September 30, 2020 we recorded charges of \$1.0 million and \$2.3 million, respectively, primarily related to the restructuring of our Orthopedic sales force that was charged to selling and administrative expenses based on the nature of the costs and function of the affected employees. During the nine months ended September 30, 2021, we recorded a charge of \$0.4 million related to the restructuring of our sales force which consisted primarily of termination payments to Orthopedic distributors made in exchange for ongoing assistance to transition to employee-based sales representatives and severance that was charged to selling and administrative expenses.

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

During the nine months ended September 30, 2020, we incurred \$1.2 million in severance and integration costs mainly related to the Buffalo Filter acquisition which were included in selling and administrative expense.

During the three and nine months ended September 30, 2021, we recorded \$1.1 million related to a loss on early extinguishment and third party fees associated with the seventh amended and restated senior credit agreement as further described in Note 9. These costs were included in other expense.

### **Note 13 — Business Segment**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Orthopedic surgery	\$ 105,751	\$ 102,187	\$ 320,809	\$ 261,954
General surgery	143,076	135,648	415,856	347,677
Consolidated net sales	\$ 248,827	\$ 237,835	\$ 736,665	\$ 609,631

### **Note 14 – Legal Proceedings**

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

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

Manufacturers of medical products may face exposure to significant product liability claims, as well as patent infringement and other claims incurred in the ordinary course of business. To date, we have not experienced any claims that have been material to our financial statements or financial condition, but any such claims arising in the future could have a material adverse effect on our business, results of operations or cash flows. We currently maintain commercial product liability insurance of \$35 million per incident and \$35 million in the aggregate annually, which we believe is adequate. This coverage is

on a claims-made basis. There can be no assurance that claims will not exceed insurance coverage, that the carriers will be solvent or that such insurance will be available to us in the future at a reasonable cost.

Our operations are subject, and in the past have been subject, to a number of environmental laws and regulations governing, among other things, air emissions; wastewater discharges; the use, handling and disposal of hazardous substances and wastes; soil and groundwater remediation and employee health and safety. Likewise, the operations of our suppliers and sterilizers are subject to similar environmental laws and regulations. In some jurisdictions, environmental requirements may be expected to become more stringent in the future. In the United States, certain environmental laws can impose liability for the entire cost of site restoration upon each of the parties that may have contributed to conditions at the site regardless of fault or the lawfulness of the party's activities. While we do not believe that the present costs of environmental compliance and remediation are material, there can be no assurance that future compliance or remedial obligations would not have a material adverse effect on our financial condition, results of operations or cash flows.

In 2014, the Company acquired EndoDynamix, Inc. The agreement governing the terms of the acquisition provides that, if various conditions are met, certain contingent payments relating to the first commercial sale of the products (the milestone payment), as well as royalties based on sales (the revenue based payments), are due to the seller. In 2016, we notified the seller that there was a need to redesign the product, and that, as a consequence, the first commercial sale had been delayed. Consequently, the payment of contingent milestone and revenue-based payments were delayed. On January 18, 2017, the seller provided notice (the "Notice") seeking \$12.7 million under a liquidated damages clause, which essentially represents the seller's view as to the sum of the projected contingent milestone and revenue-based payments on an accelerated basis. CONMED responded to the Notice denying that there was any basis for acceleration of the payments due under the acquisition agreement. On February 22, 2017, the representative of the former shareholders of EndoDynamix filed a complaint in Delaware Chancery Court claiming breach of contract with respect to the duty to commercialize the product and seeking the contingent payments on an accelerated basis. We believe that there was a substantive contractual basis to support the Company's decision to redesign the product, such that there was no legitimate basis for seeking the liquidated damages. In the third quarter of 2018, the Company decided to halt the development of the EndoDynamix clip applicator and recorded a charge to write off assets and released a previously accrued contingent consideration liability. In court filings the Plaintiffs claim to seek liquidated damages, as well as additional damages up to \$24.8 million. A non-jury trial in the Delaware Chancery Court commenced on March 18, 2021, and testimony concluded on April 7, 2021. The parties have submitted post-trial briefs, and the Court heard oral arguments at a hearing on September 16, 2021. The Court has not yet issued a ruling. The Company has not recorded any expense related to potential damages in connection with this matter because the Company does not believe any potential loss is probable. We expect to defend the claims asserted by the sellers of EndoDynamix, although there can be no assurance that we will prevail in the trial and/or any resulting appeals.

CONMED is defending two Georgia State Court actions. The first was filed by various employees, former employees, contract workers and others against CONMED, and against a contract sterilizer. The second action is against CONMED's landlord and other allegedly related entities. Plaintiffs in the lawsuits allege personal injury and related claims purportedly arising from or relating to exposure to Ethylene Oxide, a chemical used to sterilize certain products. CONMED is defending the claims asserted directly against it and is providing indemnification for certain other defendants based on contractual provisions. CONMED has submitted all of the claims for insurance coverage. One insurer is providing coverage for certain of the claims asserted directly against the Company. CONMED is currently in litigation with one of the other insurers regarding coverage for certain of the indemnification claims. The Company is unable to estimate any range of possible loss at this time, and has not recorded any expense related to potential damages in connection with this matter because the Company does not believe any potential loss is probable.

Both actions are in their early stages and discovery has not yet started. CONMED believes it has strong defenses to the claims and will vigorously defend itself and all parties it is indemnifying. As with any litigation, there are risks, including the risk that CONMED may not prevail with respect to the defense of the underlying claims, or with respect to securing adequate insurance coverage for the indemnification claims.

We record reserves sufficient to cover probable and estimable losses associated with any such pending claims. We do not expect that the resolution of any pending claims, investigations or reports of alleged misconduct will have a material adverse effect on our financial condition, results of operations or cash flows. There can be no assurance, however, that future claims or investigations, or the costs associated with responding to such claims, investigations or reports of misconduct, especially claims and investigations not covered by insurance, will not have a material adverse effect on our financial condition, results of operations or cash flows.

**Note 15 – New Accounting Pronouncements**

**Recently Issued Accounting Standards, Not Yet Adopted**

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional guidance if certain criteria are met for entities that have contracts, hedging relationships, and other transactions that reference LIBOR or other reference rates expected to be discontinued as a result of reference rate reform. This ASU is effective as of March 12, 2020 through December 31, 2022. The Company has not adopted this ASU as of September 30, 2021, however will continue to monitor the impact of reference rates and will elect to apply this guidance in our consolidated financial statements in the event that we are impacted by reference rate reform.

In August 2020, the FASB issued ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity, which simplifies the accounting for convertible instruments by removing certain separation models requiring separate accounting for embedded conversion features which will result in more convertible debt instruments accounted for as a single liability. The ASU eliminates certain settlement conditions that are required for equity classification to qualify for the derivative scope exception. The ASU addresses how convertible instruments are accounted for in the calculation of diluted earnings per share by using the if-converted method. The ASU is effective for fiscal years beginning after December 15, 2021, with early adoption permitted no earlier than fiscal years beginning after December 15, 2020. The Company will adopt this standard on January 1, 2022 using the modified retrospective method. The estimated impacts include the convertible debt instrument being accounted for as a single liability measured at its amortized cost and elimination of the non-cash interest expense as the Company will not separately present the equity embedded conversion feature in such debt. The Company also expects to adopt the if-converted method for earnings per share.

**Item 2.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION  
AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

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

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

Forward-looking statements involve known and unknown risks, uncertainties and other factors, including those that may cause our actual results, performance or achievements or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include those identified under "Risk Factors" in our Annual Report on Form 10-K for the year-ended December 31, 2020 and the following, among others:

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

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" below and "Risk Factors" and "Business" in our Annual Report on Form 10-K for the year-ended December 31, 2020 for a further discussion of these factors. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.



## Overview

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Orthopedic surgery	42 %	43 %	44 %	43 %
General surgery	58 %	57 %	56 %	57 %
Consolidated net sales	100 %	100 %	100 %	100 %

A significant amount of our products are used in surgical procedures with approximately 81% of our revenues derived from the sale of single-use products. Our capital equipment offerings also facilitate the ongoing sale of related single-use products and accessories, thus providing us with a recurring revenue stream. We manufacture substantially all of our products in facilities located in the United States and Mexico. We market our products both domestically and internationally directly to customers and through distributors. International sales approximated 45% and 44% of our consolidated net sales during the nine months ended September 30, 2021 and 2020, respectively.

## Business Environment

Our business was, and to a lesser extent continues today to be, significantly impacted by the emergence of the COVID-19 pandemic, first in the Asia Pacific geography and later in the United States, Europe and elsewhere as temporary closures occurred and hospitals and surgery centers postponed many non-urgent surgical procedures in order to minimize the risk of infection. In compliance with various governmental orders, beginning in March 2020 we restricted access to our main facilities to only essential personnel required to be onsite while maintaining production and distribution. Although such restrictions continued to be in place as of September 30, 2021, we are developing plans in certain of our facilities to ease such restrictions as the number of COVID-19 cases decline and vaccination rates increase. During the first nine months of 2021, revenues increased compared to the first nine months of 2020. We have seen and believe we will continue to experience market variability that could influence sales, suppliers, patients and customers. We also have seen and continue to expect general surgery to rebound faster than orthopedic surgery due to the nature of the products. However, there remains uncertainty related to the COVID-19 pandemic, including the duration and severity of future impacts to the business. See additional discussion in Liquidity and Capital Resources below.

## Critical Accounting Policies

Preparation of our financial statements requires us to make estimates and assumptions which affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year-ended December 31, 2020 describes the significant accounting policies used in preparation of the Consolidated Financial Statements. On an ongoing basis, we evaluate the critical accounting policies used to prepare our consolidated financial statements, including, but not limited to, those related to goodwill and intangible assets and our pension benefit obligation.

## Consolidated Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	42.8	43.8	44.0	46.7
Gross profit	57.2	56.2	56.0	53.3
Selling and administrative expense	42.1	39.7	41.7	45.1
Research and development expense	4.4	4.2	4.4	4.7
Income from operations	10.7	12.4	9.8	3.5
Interest expense	3.3	5.0	3.8	5.4
Other expense	0.5	—	0.2	—
Income (loss) before income taxes	7.0	7.3	5.9	(2.0)
Provision for income taxes	1.0	4.4	0.7	0.4
Net income (loss)	6.0 %	2.9 %	5.2 %	(2.4)%

## Net Sales

The following table presents net sales by product line for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended				
	2021	2020	% Change		
			As Reported	Impact of Foreign Currency	Constant Currency
Orthopedic surgery	\$ 105.7	\$ 102.2	3.5 %	-0.6 %	2.9 %
General surgery	143.1	135.6	5.5 %	-0.2 %	5.3 %
Net sales	\$ 248.8	\$ 237.8	4.6 %	-0.3 %	4.3 %
Single-use products	\$ 200.9	\$ 190.9	5.3 %	-0.4 %	4.9 %
Capital products	47.9	46.9	2.0 %	-0.4 %	1.6 %
Net sales	\$ 248.8	\$ 237.8	4.6 %	-0.3 %	4.3 %
	Nine Months Ended				
	2021	2020	% Change		
			As Reported	Impact of Foreign Currency	Constant Currency
Orthopedic surgery	\$ 320.8	\$ 261.9	22.5 %	-2.2 %	20.3 %
General surgery	415.9	347.7	19.6 %	-1.1 %	18.5 %
Net sales	\$ 736.7	\$ 609.6	20.8 %	-1.5 %	19.3 %
Single-use products	\$ 597.3	\$ 497.1	20.1 %	-1.5 %	18.6 %
Capital products	139.4	112.5	23.9 %	-1.8 %	22.1 %
Net sales	\$ 736.7	\$ 609.6	20.8 %	-1.5 %	19.3 %

Net sales increased 4.6% and 20.8% in the three and nine months ended September 30, 2021, respectively, compared to the same periods a year ago driven by increases across all product lines as the COVID-19 pandemic had a significant impact on sales during the first nine months of 2020.

- Orthopedic surgery sales increased 3.5% and 22.5% in the three and nine months ended September 30, 2021, respectively. Sales for the three months ended September 30, 2021 increased compared to the three months ended September 30, 2020, primarily related to growth in capital products as customers resumed capital purchases. Sales for the nine months ended September 30, 2021 increased compared to the nine months ended September 30, 2020 as 2020 was significantly impacted by the COVID-19 pandemic as hospitals and surgery centers deferred non-urgent surgeries and customers also deferred capital equipment purchases.
- General surgery sales increased 5.5% and 19.6% in the three and nine months ended September 30, 2021, respectively. 2020 was significantly impacted by the COVID-19 pandemic as hospitals and surgery centers deferred non-urgent surgeries. General surgery sales for the three and nine months ended September 30, 2021 increased compared to the three and nine months ended September 30, 2020 mainly driven by continued growth in our advanced surgical products, including our AirSeal® and Buffalo Filter® products, and advanced endoscopic technologies products. We believe the deferral of non-urgent procedures has had a lesser impact on our general surgery products as a result of the nature of the products and procedures in which they are used.

## Cost of Sales

Cost of sales increased to \$106.5 million in the three months ended September 30, 2021 as compared to \$104.1 million in the three months ended September 30, 2020 and increased to \$324.5 million in the nine months ended September 30, 2021 as compared to \$284.8 million in the nine months ended September 30, 2020. Gross profit margins increased 100 basis points to 57.2% in the three months ended September 30, 2021 as compared to 56.2% in the three months ended September 30, 2020 and increased 270 basis points to 56.0% in the nine months ended September 30, 2021 as compared to 53.3% in the nine months ended September 30, 2020.

The increase in gross profit margin of 100 basis points in the three months ended September 30, 2021 and 270 basis points in the nine months ended September 30, 2021 was driven by an increase in sales and product mix as well as the absence in 2021 of certain costs incurred in 2020 including the following:

- \$6.6 million in costs related to plant underutilization due to abnormally low production as a result of decreased sales caused by the COVID-19 pandemic during the nine months ended September 30, 2020;
- \$2.2 million in costs related to product rationalization during the nine months ended September 30, 2020;
- \$1.1 million in restructuring costs related to a voluntary separation arrangement as a result of the COVID-19 pandemic during the nine months ended September 30, 2020;
- \$0.6 million and \$4.0 million for the three and nine months ended September 30, 2020, respectively, in costs related to the consolidation of certain manufacturing operations related to winding down operations at certain locations and moving production lines to other facilities; and
- \$0.8 million and \$2.3 million for the three and nine months ended September 30, 2020, respectively, related inventory step-up adjustments from a previous acquisition.

Refer to Note 12 for further details on the above items.

## Selling and Administrative Expense

Selling and administrative expense increased to \$104.7 million in the three months ended September 30, 2021 as compared to \$94.4 million in the three months ended September 30, 2020 and increased to \$307.5 million in the nine months ended September 30, 2021 as compared to \$274.7 million in the nine months ended September 30, 2020. Selling and administrative expense as a percentage of net sales increased to 42.1% in the three months ended September 30, 2021 as compared to 39.7% in the three months ended September 30, 2020 and decreased to 41.7% in the nine months ended September 30, 2021 as compared to 45.1% in the nine months ended September 30, 2020.

The increase in selling and administrative expense as a percentage of net sales for the three months ended September 30, 2021 was driven by higher shipping costs and a return to travel and trade show attendance and partially offset by the absence in 2021 of \$1.0 million in costs associated with the restructuring of our Orthopedic sales force during the three months ended September 30, 2020.

The decrease in selling and administrative expense as a percentage of net sales for the nine months ended September 30, 2021 was mainly driven by higher sales in 2021 while continuing to monitor our expenses in response to the COVID-19 pandemic. In addition, 2020 included the following expenses:

- \$3.1 million in severance costs related to a voluntary termination program and costs associated with the restructuring of our Orthopedic sales force during the nine months ended September 30, 2020, respectively;
- a \$2.1 million write-off of field inventory used for customer demonstration and evaluation of products resulting from the product rationalization initiative during the nine months ended September 30, 2020; and
- \$1.2 million in severance and integration costs mainly related to the Buffalo Filter acquisition in the nine months ended September 30, 2020.

### **Research and Development Expense**

Research and development expense increased to \$10.9 million in the three months ended September 30, 2021 as compared to \$9.9 million in the three months ended September 30, 2020. Research and development expense increased to \$32.2 million in the nine months ended September 30, 2021 as compared to \$28.8 million in the nine months ended September 30, 2020. As a percentage of net sales, research and development expense increased 20 basis points to 4.4% in the three months ended September 30, 2021 as compared to 4.2% in the three months ended September 30, 2020 and decreased 30 basis points to 4.4% in the nine months ended September 30, 2021 as compared to 4.7% in the nine months ended September 30, 2020. The higher spend as a percentage of sales for the three months ended September 30, 2021 was driven by timing of projects. The lower spend as a percentage of sales for the nine months ended September 30, 2021 was driven by higher sales in 2021.

### **Interest Expense**

Interest expense decreased to \$8.1 million in the three months ended September 30, 2021 from \$11.9 million in the three months ended September 30, 2020 and decreased to \$27.9 million in the nine months ended September 30, 2021 from \$32.9 million in the nine months ended September 30, 2020. The weighted average interest rates on our borrowings decreased to 2.46% in the three months ended September 30, 2021 as compared to 4.01% in the three months ended September 30, 2020 and 2.94% in the nine months ended September 30, 2021 as compared to 3.63% in the nine months ended September 30, 2020. The decrease in interest expense is primarily due to decreases in our weighted average interest rates compared to the same periods a year ago driven by lower borrowings and lower interest rates as a result of the seventh amended and restated senior credit agreement as further described in Note 9.

### **Other Expense**

Other expense during the three and nine months ended September 30, 2021 was related to costs associated with our seventh amended and restated senior credit agreement entered into July 16, 2021 as further described in Note 9. These costs included \$1.1 million related to a loss on early extinguishment and third party fees. Other expense in the three and nine months ended September 30, 2020 is related to non-service pension costs as further described in Note 11.

### **Provision for Income Taxes**

Income tax expense has been recorded at an effective tax rate of 14.3% for the three months ended September 30, 2021 compared to income tax expense at an effective tax rate of 60.5% for the three months ended September 30, 2020. Income tax expense has been recorded at an effective tax rate of 12.3% for the nine months ended September 30, 2021 compared to income tax expense at an effective tax rate of (22.9)% for the nine months ended September 30, 2020. We calculate our estimated tax liability each quarter based on the level of income and tax liability on a year-to-date basis. Our income position for the three and nine months ended September 30, 2021 generated tax expense which was offset by discrete income tax benefit from federal tax deductions relating to stock option exercises that decreased the effective tax rate by 12.5% and 14.1%, respectively. The tax rates for the three months and nine months ended September 30, 2020 were primarily the result of the third quarter 2020 income which offset in part the second quarter 2020 loss position. At the end of the second quarter of 2020, the loss position resulted in an effective rate of 26.6% through the first six months of the year. Given the increase in income in the third quarter of 2020, the year-to-date income level changed and drove a higher level of tax liability in the third quarter on a year-to-date basis. This resulted in a tax rate for the third quarter of 2020 of 60.5% which included a discrete benefit relating to the final issuance of tax regulations regarding US tax on foreign earnings at different rates. The nine months ended September 30, 2020 included discrete income tax benefit associated with this final issuance of tax regulations, stock option exercises and other federal income tax items. A reconciliation of the United States statutory income tax rate to our effective tax rate is included in our

Annual Report on Form 10-K for the year ended December 31, 2020, under Note 8 to the consolidated financial statements.

## **Non-GAAP Financial Measures**

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

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

## **Liquidity and Capital Resources**

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

Management believes that cash flow from operations, including cash and cash equivalents on hand and available borrowing capacity under our seventh amended and restated senior credit agreement, will be adequate to meet our anticipated operating working capital requirements, debt service, funding of capital expenditures, dividend payments and common stock repurchases in the foreseeable future. We continue to monitor our spending and expenses in light of our expectation that our revenues will continue to be impacted by the pandemic. While the results of operations support continued recovery, there remains uncertainty in the financial markets related to the COVID-19 pandemic which may have an impact on the demand for post-pandemic surgery levels that are difficult to predict. If the downturn is more severe and prolonged than we currently expect, we may need to take further steps to reduce our costs, or to refinance our debt.

### **Operating cash flows**

Our net working capital position was \$260.2 million at September 30, 2021. Net cash provided by operating activities was \$78.0 million and \$44.4 million in the nine months ended September 30, 2021 and 2020, respectively, generated on net income (loss) of \$38.1 million and \$(14.6) million for the nine months ended September 30, 2021 and 2020, respectively. The increase in cash provided by operating activities in 2021 as compared to 2020 was mainly driven by higher net income in 2021 compared to the same period a year ago offset by an increase in inventory levels to mitigate inventory supply challenges and prepare for anticipated increases in revenue.

### **Investing cash flows**

Net cash used in investing activities in the nine months ended September 30, 2021 increased \$1.2 million from the same period a year ago primarily due to capital expenditures being higher at \$11.7 million in the nine months ended September 30, 2021 compared to \$9.9 million in the same period a year ago.

### **Financing cash flows**

Net cash used in financing activities in the nine months ended September 30, 2021 was \$60.8 million compared to \$24.9 million during 2020. Below is a summary of the significant financing activities impacting the change during the nine months ended September 30, 2021 compared to 2020:

- We had net payments on our revolving line of credit of \$36.0 million, inclusive of the impact of the seventh amended and restated senior credit agreement, compared to \$10.0 million in net borrowings during the nine months ended September 30, 2020.

- We had net payments on our term loan of \$11.3 million, inclusive of a \$52.4 million impact on both borrowings and repayments between independent counterparties associated with the seventh amended and restated senior credit agreement, compared to \$9.9 million in payments during the nine months ended September 30, 2020.
- We had net cash proceeds of \$14.9 million related to stock issued under employee plans for the nine months ended September 30, 2021 compared to \$3.7 million in the same period a year ago.

On July 16, 2021, we entered into a seventh amended and restated senior credit agreement consisting of: (a) a \$233.5 million term loan facility and (b) a \$585.0 million revolving credit facility. The revolving credit facility will terminate and the loans outstanding under the term loan facility will expire on July 16, 2026. The term loan is payable in quarterly installments increasing over the term of the facility. Proceeds from the term loan facility and borrowings under the revolving credit facility were used to repay the then existing senior credit agreement. Interest rates are at LIBOR (subject to 0.125% floor) plus an interest rate margin of 1.50% (1.625% at September 30, 2021). For borrowings where we elect to use the alternate base rate, the initial base rate is the greatest of (i) the Prime Rate, (ii) the Federal Funds Rate plus 0.50% or (iii) the one-month Adjusted LIBOR plus 1.00%, plus, in each case, an interest rate margin.

There were \$230.5 million in borrowings outstanding on the term loan facility as of September 30, 2021. There were \$171.0 million in borrowings outstanding under the revolving credit facility as of September 30, 2021. Our available borrowings on the revolving credit facility at September 30, 2021 were \$411.5 million with approximately \$2.5 million of the facility set aside for outstanding letters of credit.

The seventh amended and restated senior credit agreement is collateralized by substantially all of our personal property and assets. The seventh amended and restated senior credit agreement contains covenants and restrictions which, among other things, require the maintenance of certain financial ratios and restrict dividend payments and the incurrence of certain indebtedness and other activities, including acquisitions and dispositions. We were in full compliance with these covenants and restrictions as of September 30, 2021. We are also required, under certain circumstances, to make mandatory prepayments from net cash proceeds from any issuance of equity and asset sales.

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

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

The convertible note hedge transactions are expected generally to reduce the potential dilution upon conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be, in the event that the market price per share of our common stock, as measured under the terms of the convertible note hedge transactions, is greater than the strike price of the convertible note hedge transactions, which initially corresponds to the conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes. If, however, the market price per share of our common stock, as measured under the terms of the warrant transactions, exceeds the strike price (\$114.92) of the warrants, there would nevertheless be dilution to the extent that such market price exceeds the strike price of the warrants as noted in Note 7, unless we elect to settle the warrants in cash.

Our Board of Directors has authorized a \$200.0 million share repurchase program. Through September 30, 2021, we have repurchased a total of 6.1 million shares of common stock aggregating \$162.6 million under this authorization and have \$37.4 million remaining available for share repurchases. The repurchase program calls for shares to be purchased in the open market or in private transactions from time to time. We may suspend or discontinue the share repurchase program at any time.

We have not purchased any shares of common stock under the share repurchase program during 2021. We have financed the repurchases and may finance additional repurchases through operating cash flow and from available borrowings under our revolving credit facility.

#### **New accounting pronouncements**

See Note 15 to the consolidated condensed financial statements for a discussion of new accounting pronouncements.

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

There have been no significant changes in our primary market risk exposures or in how these exposures are managed during the nine months ended September 30, 2021. Reference is made to Item 7A. of our Annual Report on Form 10-K for the year ended December 31, 2020 for a description of Qualitative and Quantitative Disclosures About Market Risk.

#### **Item 4. Controls and Procedures**

As of the end of the period covered by this report, an evaluation was carried out by CONMED Corporation's management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) occurred during the quarter ended September 30, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

Reference is made to Item 3 of the Company's Annual Report on Form 10-K for the year-ended December 31, 2020 and to Note 14 of the Notes to Consolidated Condensed Financial Statements included in Part I of this Report for a description of certain legal matters.

**Item 6. Exhibits**

**Exhibit Index**

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
31.1	<a href="#">Certification of Curt R. Hartman pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification of Todd W. Garner pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1	<a href="#">Certifications of Curt R. Hartman and Todd W. Garner pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page - Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document (included in Exhibit 101)



**SIGNATURES**

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

CONMED CORPORATION

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

Date:  
October 28, 2021

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

I, Curt R. Hartman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CONMED Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 28, 2021

/s/ Curt R. Hartman

Curt R. Hartman

Chair of the Board, President & Chief Executive Officer

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

I, Todd W. Garner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CONMED Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 28, 2021

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

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

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

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 (the "Form 10-Q") of the Corporation fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: October 28, 2021                      /s/ Curt R. Hartman  
Curt R. Hartman  
Chair of the Board, President &  
Chief Executive Officer

Date: October 28, 2021                      /s/ Todd W. Garner  
Todd W. Garner  
Executive Vice President and  
Chief Financial Officer