

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended September 29, 1995

Commission File Number 0-16093

CONMED CORPORATION

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

New York
(State or other jurisdiction of
incorporation or organization)

16-0977505
(I.R.S. Employer
Identification No.)

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

13501
(Zip Code)

(315) 797-8375

(Registrant's telephone number, including area code)

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

Yes [x] No []

The number of shares outstanding of registrant's common stock, as of October 23, 1995 is 7,397,191 shares.

CONMED CORPORATION

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

	For the three months ended		For the nine months ended	
	Sept. 30, 1994	Sept. 29, 1995	Sept. 30, 1994	Sept. 29, 1995
Net sales	\$ 17,264	\$ 26,258	\$ 52,649	\$ 71,886
Cost and expenses:				
Cost of sales	9,300	13,737	28,902	37,960
Selling and administrative ...	5,106	6,586	15,775	18,703
Research and development	591	781	1,693	2,115
Total operating expenses ...	14,997	21,104	46,370	58,778
Income from operations	2,267	5,154	6,279	13,108
Interest income (expense), net ..	(179)	(741)	(484)	(1,436)
Income before taxes	2,088	4,413	5,795	11,672
Provision for income taxes	731	1,524	2,028	4,125
Net income	\$ 1,357	\$ 2,889	\$ 3,767	\$ 7,547
Weighted common shares and equivalents	6,398	8,112	6,333	7,597
Earnings per share	\$.21	\$.36	\$.59	\$.99

See notes to consolidated financial statements.

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

	ASSETS	
	December 30, 1994	Sept. 29, 1995 (unaudited)
Current assets:		
Cash and cash equivalents	\$ 3,615	\$ 1,602
Accounts receivable, net	13,141	21,752
Inventories (Note 4)	9,620	20,490
Deferred income tax assets	1,494	712

Prepaid expenses and other current assets	451	790
	-----	-----
Total current assets	28,321	45,346
Property, plant and equipment, net	16,227	19,325
Covenant not to compete	1,530	1,263
Goodwill	13,109	46,700
Patents, trademarks, and other assets	2,917	5,512
	-----	-----
Total assets	\$ 62,104	\$ 118,146
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt	\$ 2,500	\$ 6,000
Accounts payable	1,539	2,473
Income taxes payable	455	621
Accrued payroll and withholdings	2,571	2,822
Accrued pension	307	162
Accrued patent litigation	2,360	--
Other current liabilities	430	1,037
	-----	-----
Total current liabilities	10,162	13,115
Long-term debt	6,875	27,840
Deferred income taxes	1,011	1,011
Accrued pension	276	276
Long term leases	--	3,125
Other long-term liabilities	--	729
Deferred compensation	719	826
	-----	-----
Total liabilities	19,043	46,922
	-----	-----

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

	December 30, 1994	Sept. 29, 1995
	-----	-----
		(unaudited)
Shareholders' equity:		
Preferred stock, par value \$.01 per share; authorized 500,000 shares; none outstanding	--	--
Common stock, par value \$.01 per share; 20,000,000 authorized; 6,038,214 and 7,397,191 issued and outstanding, in 1994 and 1995, respectively	60	74
Paid-in capital	23,532	44,134
Retained earnings	19,469	27,016
	-----	-----
Total equity	43,061	71,224
	-----	-----
Total liabilities and shareholders' equity	\$ 62,104	\$ 118,146
	=====	=====

See notes to consolidated financial statements.

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

	For the nine months ended Sept. 30, 1994	Sept. 29, 1995
	-----	-----
Cash flows from operating activities:		
Net income	\$ 3,767	\$ 7,547

Adjustments to reconcile net income		
to net cash provided (used) by operations:		
Depreciation	1,805	1,895
Amortization	1,111	1,454
Increase (decrease) in cash flows		
from changes in assets and liabilities		
Accounts receivable	(904)	(3,046)
Inventories	(785)	(4,953)
Prepaid expenses and other assets	(130)	(339)
Accounts payable	239	(1,004)
Income tax payable	198	(833)
Income tax benefit of stock		
option exercises	--	989
Accrued payroll and withholdings	1,228	(97)
Accrued pension	(5)	(145)
Accrued patent litigation costs	(177)	(2,360)
Other current liabilities	(459)	(371)
Other assets/liabilities (net)	(107)	1,040
	-----	-----
Net cash provided (used) by operations	2,014	(7,770)
	-----	-----
Cash flows from investing activities:		
Business acquisitions	--	(9,500)
Acquisition of property, plant, and equipment ...	(1,334)	(3,805)
	-----	-----
Net cash used by		
investing activities	(1,334)	(13,305)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	25	1,931
Proceeds of long and short term debt	--	26,590
Payments on debt and other obligations	(1,905)	(17,006)
	-----	-----
Net cash provided (used) by		
financing activities	(1,880)	11,515
	-----	-----
Net increase (decrease) in cash		
and cash equivalents	2,567	(2,013)
Cash and cash equivalents at beginning of year	1,978	3,615
	-----	-----
Cash and cash equivalents at end of period	\$ 4,545	\$ 1,602
	=====	=====

See notes to consolidated financial statements.

CONMED CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Consolidation

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

Note 2 - Interim financial information

The statements for the three and nine months ended September 30, 1994 and September 29, 1995 are unaudited; in the opinion of the Company such unaudited statements include all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation of the results for such periods. The consolidated financial statements for the year ending December 29, 1995 are subject to adjustment at the end of the year when they will be audited by independent accountants. The results of operations for the three and nine months ended September 30, 1994 and September 29, 1995 are not necessarily indicative of the results of operations to be expected for any other quarter nor for the year ending December 29, 1995. The consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes for the years ended December 31, 1993 and December 30, 1994 included in the Company's Annual Report to the Securities and Exchange Commission on Form 10-K.

Note 3 - Earnings per share

Earnings per share was computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding during the quarter. Common stock equivalents consisting of stock options and warrants totaled 378,000 and 316,000 for the three and nine months, respectively, ended September 30, 1994 and 829,000 and 707,000 for the three and nine months, respectively, ended September 29, 1995.

Note 4 - Inventories

The components of inventory are as follows:

	December 30, 1994 -----	September 29, 1995 -----
Raw materials.....	\$ 4,154	\$ 3,987
Work-in-process...	1,851	7,821
Finished goods....	3,615	8,682
	-----	-----
Total....	\$ 9,620 =====	\$ 20,490 =====

Note 5 - Acquisitions

On March 14, 1995, the Company acquired certain assets and the business of Birtcher Medical Systems for approximately 1,080,000 shares of CONMED common stock valued at \$17,750,000 and the assumption of net liabilities totaling approximately \$9,300,000. Accordingly, the results of operations of the acquired business is included in the consolidated results of the Company from the date of acquisition. The transaction was accounted for using the purchase method of accounting. Goodwill is being amortized over a 40 year period while other intangible assets are being amortized over periods ranging from five to ten years.

On May 22, 1995, the Company acquired the business and certain assets and liabilities of The Master Medical Corporation for a cash purchase price of approximately \$9,500,000. The acquisition was accounted for using the purchase method of accounting. Goodwill and other intangible assets are being amortized over a 15 year period.

The allocation of the purchase prices for these acquisitions is based on management's preliminary estimates; it is possible that re-allocations will be required during the twelve month periods following the acquisitions as additional information becomes available. Management does not believe that such re-allocations will have a material effect on the Company's results of operations or financial position.

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

	For the Three Months Ended Sept. 30, 1994 -----	For the Nine Months Ended Sept. 30, 1994 -----	Sept. 29, 1995 -----
Pro forma revenues	\$ 26,250 =====	\$ 79,520 =====	\$80,753 =====
Pro forma net income	\$ 2,354 =====	\$ 4,698 =====	\$ 8,456 =====
Pro forma earnings per common and common equivalent share	\$.32 =====	\$.65 =====	\$ 1.03 =====

Note 6 - Stock Split

On November 22, 1994, the Board of Directors of the Company declared a three-for-two split of the Company's common stock, to be effected in the form of a stock dividend, payable on December 27, 1994 to shareholders of record on December 8, 1994. Accordingly, earnings per share and the weighted average number of shares and equivalents outstanding have been restated to retroactively reflect the split.

Note 7 - Legal Matters

The Company has been informed that the appellate court considering the Company's appeal of a lower court's \$2,100,000 plus accrued interest award to a competitor in a previously disclosed patent infringement matter has been affirmed. Adequate provision for the damage award was made in 1993. The Company paid the award in the second quarter of 1995.

Note 8 - Subsequent Events

In October 1995, the Company signed an asset purchase agreement whereby the Company will acquire the business and certain assets of New Dimensions in Medicine, Inc. (NDM) for a cash purchase price of \$32 million. The transaction is subject to standard governmental approvals and the approval of the shareholders of NDM.

Item 2.

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

Three months ended September 29, 1995 compared to
three months ended September 30, 1994

Sales for the quarter ended September 29, 1995 were \$26,258,000, an increase of 52.1% compared to sales of \$17,264,000 in the quarter ended September 30, 1994. The increase is primarily a result of sales volume gains resulting from the Birtcher and Master Medical acquisitions.

Cost of sales increased to \$13,737,000 in the current quarter compared to \$9,300,000 in the same quarter a year ago as a result of increased sales volume. The gross margin percentage increased to 47.7% from 46.1%. This increase is substantially a result of increased sales volume generating manufacturing efficiencies.

Selling and administrative expenses increased to \$6,586,000 compared to \$5,106,000 in the third quarter of 1994. This increase results from the effects of the acquisitions. As a percentage of sales, however, selling and administrative expense declined to 25.1% from 29.6% in the comparable period of 1994. This decrease results from economies of scale and the elimination of duplicate administrative and selling costs from the acquired businesses.

Research and development expense was \$781,000 in the third quarter of 1995 compared to \$591,000 in the third quarter of 1994. This increase is primarily a result of growth in the Company's research activities in its surgical product lines.

The third quarter of 1995 had interest expense of \$741,000 compared to interest expense of \$179,000 in the third quarter of 1994. The interest increase results from the debt incurred as a result of the 1995 acquisitions.

The provision for income tax increased in 1995 due to the higher income before tax.

Nine months ended September 29, 1995 compared to
nine months ended September 30, 1994

The Company recorded net sales of \$71,886,000 for the nine months ended September 29, 1995 compared to \$52,649,000 for the nine months ended September 30, 1994, an increase of 36.5%. The increase is substantially a result of the effects of the acquisitions.

The Company's gross margin was 47.2% for the nine months of 1995 compared to 45.1% for the nine months ended September 1994. The increase in gross margin is a result of economies of scale due to the acquisitions.

Selling and administrative costs have increased during the first nine months of 1995 when compared with the first nine months of 1994 due to the effects of the acquisitions. However, as percentage of sales, selling and administrative expense declined to 26.0% from 30.0% in the prior comparable period due to economies of scale resulting from acquisitions.

The Company incurred \$1,436,000 in interest expense in the first nine months of 1995 compared to \$484,000 in 1994. This change is a result of the effects of the debt incurred as a result of the 1995 acquisitions.

The estimated effective income tax rates were approximately 35.3% in the first nine months of 1995 and 35.0% in the first nine months of 1994.

Liquidity and Capital Resources

Cash flows generated or used by operating, investing, and financing activities for the first nine months of 1995 and 1994 are disclosed in the consolidated Statements of Cash Flows. Cash used by operations was \$223,000 for the first nine months of 1995 while cash provided by operations was \$5,781,000 for the first nine months of 1994. Operating cash flows for the first nine months of 1995 were aided by higher net income compared to the same period in 1994. Depreciation and amortization in 1995 were increased due to the effects of including Birtcher and Master Medical subsequent to their acquisitions. Cash flows from operations for the first nine months of 1995 were negatively impacted by increases in accounts receivable, inventories and prepaid expenses and other assets. Payment of accounts payable, the patent litigation award and other current liabilities also reduced cash flow. To a large degree, cash flows related to accounts receivable and inventories represent cash requirements related to the integration of Birtcher and Master Medical acquisitions into the Company's operations.

Net cash used by investing activities was \$13,305,000 in the first nine months of 1995 compared to \$1,334,000 in the first nine months of 1994. Business acquisitions utilized \$9,500,000 of cash. Additions to property, plant and equipment for the first nine months of 1995 totaled \$3,805,000. Included in this amount was the purchase of land and building in Rome, New York amounting to \$1,200,000 which has been used by the Company for manufacturing expansion.

Cash flows provided by financing activities were \$11,515,000 for the first nine months of 1995. The Company refinanced its existing bank debt, as described below, and received \$26,590,000 in additional proceeds. Payments on debt and other obligations included \$2,871,000 on the Company's debt, \$5,846,000 to Birtcher's bank to liquidate debt assumed in the acquisition and \$8,289,000 of other Birtcher liabilities.

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

The Company's credit facility consists of a \$30,000,000 secured term loan and secured revolving line of credit of \$10,000,000. As of September 29, 1995, \$28,500,000 was outstanding under the term loan and \$5,340,000 on the revolving line of credit. The existing term loan is payable over five years at an interest rate of 1.625% over LIBOR. The revolving line of credit terminates on April 1, 1998 and carries an interest rate of 1.5% over LIBOR.

In order to meet cash requirements of the proposed acquisition discussed in Note 8 of Item 1, the Company has obtained a commitment from existing lenders to increase its aggregate credit facility to \$80,000,000.

Item 6. Exhibits and Reports on Form 8-K

List of Exhibits - None

Reports on Form 8-K

Form 8-K dated October 19, 1995 was filed disclosing a press release relative to the agreement with a third party to acquire a business and certain assets.

SIGNATURES

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

CONMED CORPORATION
(Registrant)

Date: October 30, 1995

/s/ Robert D. Shallish Jr.

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

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