CONMED CORP
Form 10-K
February 26, 2018

United States
Securities and Exchange Commission
Washington, D.C.
20549

Form 10-K
Annual Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2017	Commission file number 0-16093

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

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

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

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.01 par value per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act).
Yes ý No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes o No x

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer ý Accelerated filer o Non-accelerated filer o Smaller reporting company o Emerging growth company o

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. o

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

As of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of voting common stock held by non-affiliates of the registrant was approximately $1,422,206,289 based upon the closing price of the Company's common stock on the NASDAQ Stock Market.

The number of shares of the registrant's $0.01 par value common stock outstanding as of February 21, 2018 was 27,975,424.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Definitive Proxy Statement and any other informational filings for the 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

CONMED CORPORATION
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CONMED CORPORATION

Item 1. Business

Forward Looking Statements

This Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2017 ("Form 10-K") contains certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) and information relating to CONMED Corporation ("CONMED", the "Company", "we" or "us" — references to "CONMED", the "Company", "we" or "us" shall be deemed to include our direct and indirect subsidiaries unless the context otherwise requires) which are based on the beliefs of our management, as well as assumptions made by and information currently available to our management.

When used in this Form 10-K, the words "estimate", "project", "believe", "anticipate", "intend", "expect" and similar expressio are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, including those identified under the caption "Item 1A-Risk Factors" and elsewhere in this Form 10-K which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following:

- general economic and business conditions;
- changes in foreign exchange and interest rates;
- cyclical customer purchasing patterns due to budgetary and other constraints;
- changes in customer preferences;
- competition;
- changes in technology;
- the introduction and acceptance of new products;
- the ability to evaluate, finance and integrate acquired businesses, products and companies;
- changes in business strategy;
- the availability and cost of materials;
- the possibility that United States or foreign regulatory and/or administrative agencies may initiate enforcement actions against us or our distributors;
- future levels of indebtedness and capital spending;
- quality of our management and business abilities and the judgment of our personnel;
- the availability, terms and deployment of capital;
- the risk of an information security breach, including a cybersecurity breach;
- the risk of litigation, especially patent litigation as well as the cost associated with patent and other litigation;
- the risk of a lack of allograft tissues due to reduced donations of such tissues or due to tissues not meeting the appropriate high standards for screening and/or processing of such tissues;
- compliance with and changes in regulatory requirements; and
- various other factors referenced in this Form 10-K.

See "Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operations", "Item 1-Business" and "Item 1A-Risk Factors" 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 Form 10-K or to reflect the occurrence of unanticipated events.

General

CONMED Corporation was incorporated under the laws of the State of New York in 1970. CONMED is a medical technology company that provides surgical devices and equipment for minimally invasive procedures. The Company's products are used by surgeons and physicians in a variety of specialties including orthopedics, general surgery, gynecology, neurosurgery and gastroenterology. Headquartered in Utica, New York, the Company's 3,100 employees distribute its products worldwide from three primary manufacturing locations.

We have historically used strategic business acquisitions, internal product development activities and exclusive distribution relationships to diversify our product offerings, increase our market share in certain product lines, realize economies of scale and take advantage of growth opportunities in the healthcare field.

We are committed to offering products with the highest standards of quality, technological excellence and customer service. Substantially all of our facilities have attained certification under the ISO international quality standards and other domestic and international quality accreditations.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are accessible free of charge through the Investor Relations section of our website (http://www.conmed.com) as soon as practicable after such materials have been electronically filed with, or furnished to, the United States Securities and Exchange Commission (the "SEC"). Our SEC filings are also available for reading and copying at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (http:/www.sec.gov) containing reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Business Strategy

Our principal objectives are to improve the quality of surgical outcomes and patient care through the development of innovative medical devices, the refinement of existing products and the development of new technologies which reduce risk, trauma, cost and procedure time. We believe that by meeting these objectives we will enhance our ability to anticipate and adapt to customer needs and market opportunities and provide shareholders with favorable investment returns. We intend to achieve future growth in revenues and earnings through the following initiatives:

- Introduction of New Products and Product Enhancements. We continually pursue organic growth through the development of new products and enhancements to existing products. We seek to develop new technologies which improve the durability, performance and usability of existing products. In addition to our internal research and development efforts, we receive new ideas for products and technologies, particularly in procedure-specific areas, from surgeons, inventors and other healthcare professionals.

- Pursue Strategic Acquisitions. We pursue strategic acquisitions, distribution and similar arrangements in existing and new growth markets to achieve increased operating efficiencies, geographic diversification and market penetration. Targeted companies have historically included those with proven technologies and established brand names which provide potential sales, marketing and manufacturing synergies. This includes the January 4, 2016 acquisition of SurgiQuest, Inc. ("SurgiQuest") as further described in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 2 to the consolidated financial statements.

- Realize Manufacturing and Operating Efficiencies. We continually review our production systems for opportunities to reduce operating costs, consolidate product lines or process flows, reduce inventory requirements and optimize existing processes. Our vertically integrated manufacturing facilities allow for further opportunities to reduce overhead and increase operating efficiencies and capacity utilization.

- Geographic Diversification. We believe that significant growth opportunities exist for our surgical products outside the United States. Principal international markets for our products include Europe, Latin America, Canada and Asia/Pacific Rim. Critical elements of our future sales growth in these markets include leveraging our existing relationships with international surgeons, hospitals, third-party payers and foreign distributors (including sub-distributors and sales agents), maintaining an appropriate presence in emerging market countries and continually evaluating our routes-to-market.

- Active Participation in the Medical Community. We believe that excellent working relationships with physicians and others in the medical industry enable us to gain an understanding of new therapeutic and diagnostic alternatives, trends and emerging opportunities. Active participation allows us to quickly respond to the changing needs of

physicians and patients. In addition, we are an active sponsor of medical education both in the United States and internationally, offering training on new and innovative surgical techniques as well as other medical education materials for use with our products.

Products

Beginning in fiscal year 2017, we adjusted our product line disclosures to align with the way we review net sales. In doing so, we consolidated our surgical visualization product line into our orthopedic surgery product line disclosure for all years presented. The following table sets forth the percentage of net sales for each of our product lines during each of the three years ended December 31:

	Year Ended December 31,					
	2017		2016		2015	
Orthopedic surgery	54	%	55	%	62	%
General surgery	46		45		38	
Consolidated net sales	100	%	100	%	100	%
Net sales (in thousands)	$796,392		$763,520		$719,168	

The increase in the percentage of net sales to General Surgery in 2016 is driven by the acquisition of SurgiQuest, Inc. on January 4, 2016 as further described in Note 2 to the consolidated financial statements.

Orthopedic Surgery

Our orthopedic surgery product offering includes sports medicine, powered surgical instruments, and sports biologics and tissue. These products are marketed under a number of brands, including Hall®, CONMED Linvatec®, Concept® and Shutt®.

We offer a comprehensive range of devices and products to repair injuries in the articulating joint areas of the body. Many of these injuries are the result of sports related events or similar traumas. Our sports medicine products include powered resection instruments, arthroscopes, reconstructive systems, tissue repair sets, metal and bioabsorbable implants as well as related disposable products and fluid management systems. It is our standard practice to place some of these products, such as shaver consoles and fluid pumps, with certain customers at no charge in exchange for commitments to purchase disposable products over certain time periods. We loan this capital equipment, and it is subject to return if the customer does not meet certain minimum single-use purchases. Single-use products include products such as shaver blades, burs and pump tubing. In sports medicine, we compete with Smith & Nephew, plc; Arthrex, Inc.; Stryker Corporation; Johnson & Johnson: DePuy Mitek, Inc. and Zimmer Biomet, Inc.

Our powered instruments offering is sold principally under the Hall® Surgical brand name, for use in large and small bone orthopedic, arthroscopic, oral/maxillofacial, podiatric, plastic, ENT, neurological, spinal and cardiothoracic surgeries. Our newest product is the Hall 50™ Powered Instrument System, specifically designed to meet the requirements of most orthopedic applications. The modularity and versatility of the Hall 50™ Powered Instrument System allows a facility to purchase a single power system to perform total joint arthroplasty, trauma, arthroscopy and some small bone procedures. In powered instruments, our competition includes Stryker Corporation; Medtronic plc; Johnson & Johnson: DePuy Synthes, Inc.; MicroAire Surgical Instruments, LLC and Zimmer Biomet, Inc.

Our surgical visualization products offer imaging systems for use in minimally invasive orthopedic and general surgery procedures including 2DHD and 3DHD vision technologies. In surgical visualization, our competition includes Smith & Nephew, plc; Arthrex, Inc.; Stryker Corporation; Olympus, Inc.; Richard Wolf and Karl Storz GmbH.

The Company is party to a worldwide Sports Medicine Joint Development and Distribution Agreement (the "JDDA") with Musculoskeletal Transplant Foundation (“MTF”) for the worldwide promotion rights with respect to allograft tissues within the field of sports medicine and related areas. Under the terms of this agreement, we are the exclusive worldwide promoter of these allograft tissues, which includes the reconstruction and/or replacement of tendon, ligament, cartilage or menisci, along with the correction of deformities within the extremities.

General Surgery

Our general surgery product line offers a large range of products in the areas of advanced surgical, endoscopic technologies and critical care.

Our advanced surgical product offering includes the leading clinical insufflation system (AirSeal®), an extensive energy line and a broad offering of endomechanical products. AirSeal® includes proprietary valveless access ports to deliver significant benefits to traditional minimally invasive surgery and robotic surgery. The electrosurgical offering consists of monopolar and bipolar generators, Argon beam coagulation generators, handpieces, smoke management systems and other accessories. Our endomechanical products offer a full line of instruments, including tissue retrieval bags, trocars, suction irrigation devices, graspers, scissors and dissectors, used in minimally invasive surgery. We offer a unique and premium uterine manipulator called VCARE® for use in increasing the efficiency of laparoscopic hysterectomies and other gynecologic laparoscopic procedures. Our competition includes Medtronic plc; Johnson & Johnson: Ethicon Endo-Surgery, Inc.; Stryker Endoscopy, Olympus, ERBE Elektromedizin GmbH; and Applied Medical Resources Corporation.

Our endoscopic technologies offering includes a comprehensive line of minimally invasive diagnostic and therapeutic products used in conjunction with procedures which utilize flexible endoscopy. This offering includes mucosal management devices, forceps, scope management accessories, bronchoscopy devices, dilatation, stricture management devices, hemostasis, biliary devices and polypectomy. Our competition includes Boston Scientific Corporation - Endoscopy; Cook Medical, Inc.; Merit Medical Endotek; Olympus, Inc.; STERIS Corporation - U.S. Endoscopy and Cantel Medical- Medivators, Inc.

Our critical care offering includes a line of vital signs, cardiac monitoring and patient care products including ECG electrodes & accessories, cardiac defibrillation & pacing pads and a complete line of suction instruments and tubing. Finally, we offer a physician's office electrosurgical product mainly used by dermatologists. Critical care's main competition includes Cardinal (formerly Medtronic plc) and 3M Company.

International

Expanding our international presence is an important component of our long-term growth plan. Our products are sold in over 100 foreign countries. International sales efforts are coordinated through local country dealers (including sub-distributors or sales agents) or through direct in-country sales. We distribute our products through sales subsidiaries and branches with offices located in Australia, Austria, Belgium, Canada, China, Denmark, Finland, France, Germany, Italy, Korea, the Netherlands, Poland, Spain, Sweden and the United Kingdom. In these countries, our sales are denominated in the local currency and amounted to approximately 33% of our total net sales in 2017. In the remaining countries where our products are sold through independent distributors, sales are denominated in United States dollars.

Competition

We compete in orthopedic and general surgery medical device markets across the world. Our competitors range from large manufacturers with multiple business units to smaller manufacturers with limited product offerings. We believe we have appropriate product offerings and adequate market share to compete effectively in these markets. The global markets are constantly changing due to technological advances. We seek to closely align our research and development with our key business objectives, namely developing and improving products and processes, applying innovative technology to the manufacture of products for new global markets and reducing the cost of producing core products.

The breadth of our product lines in our key product areas enables us to meet a wide range of customer requirements and preferences. This has enhanced our ability to market our products to surgeons, hospitals, surgery centers, group purchasing organizations ("GPOs"), integrated delivery networks ("IDNs") and other customers, particularly as institutions seek to reduce costs and minimize the number of suppliers.

Marketing

A significant portion of our products are distributed domestically directly to more than 6,000 hospitals, surgery centers and other healthcare institutions as well as through medical specialty distributors. We are not dependent on any single customer and no single customer accounted for more than 10% of our net sales in 2017, 2016 and 2015.

A significant portion of our U.S. sales are to customers affiliated with GPOs, IDNs and other large national or regional accounts, as well as to the Veterans Administration and other hospitals operated by the Federal government. For hospital inventory management purposes, some of our customers prefer to purchase our products through independent third-party medical product distributors.

Our employee sales representatives are specially trained in our various product offerings. Each employee sales representative is assigned a defined geographic area and compensated on a commission basis or through a combination of salary and commission. The sales force is supervised and supported by either area directors or district managers. In certain geographies, sales agent groups are used in the United States to sell our orthopedic products. These sales agent groups are paid a commission for sales made to customers while home office sales and marketing management provide the overall direction for marketing and positioning of our products. Our sales professionals provide surgeons and medical personnel with information relating to the technical features and benefits of our products.

Our health systems organization is responsible for interacting with large regional and national accounts (e.g. GPOs, IDNs, etc.). We have contracts with many such organizations and believe that the loss of any individual group purchasing contract will not materially impact our business. In addition, all of our sales professionals are required to work closely with distributors where applicable and maintain close relationships with end-users.

We sell to a diversified base of customers around the world and, therefore, believe there is no material concentration of credit risk.

Manufacturing

Raw material costs constitute a substantial portion of our cost of production. Substantially all of our raw materials and select components used in the manufacturing process are procured from external suppliers. We work closely with multiple suppliers to ensure continuity of supply while maintaining high quality and reliability. As a consequence of supply chain best practices, new product development and acquisitions, we often form strategic partnerships with key suppliers. As a consequence of these supplier partnerships, components and raw materials may be sole sourced. Due to the strength of these suppliers and the variety of products we provide, we do not believe the risk of supplier interruption poses an overall material adverse effect on our financial and operational performance. We schedule production and maintain adequate levels of safety stock based on a number of factors, including experience, knowledge of customer ordering patterns, demand, manufacturing lead times and optimal quantities required to maintain the highest possible service levels. Customer orders are generally processed for immediate shipment and backlog of firm orders is therefore not considered material to an understanding of our business.

Research and Development

New and improved products play a critical role in our continued sales growth. Internal research and development efforts focus on the development of new products and product technological and design improvements aimed at complementing and expanding existing product lines. We continually seek to leverage new technologies which improve the durability, performance and usability of existing products. In addition, we maintain close working relationships with surgeons, inventors and operating room personnel who often make new product and technology disclosures, principally in procedure-specific areas. In certain cases, we seek to obtain rights to these ideas through negotiated agreements. Such agreements typically compensate the originator through payments based upon a percentage of licensed product net sales. Annual royalty expense approximated $1.8 million, $2.3 million and $2.3 million in 2017, 2016 and 2015, respectively.

Amounts expended for Company research and development were approximately $32.3 million, $32.3 million and $27.4 million during 2017, 2016 and 2015, respectively.

Intellectual Property

Patents and other proprietary rights, in general, are important to our business. We have rights to intellectual property, including United States patents and foreign equivalent patents which cover a wide range of our products. We own a majority of these patents and have exclusive and non-exclusive licensing rights to the remainder. In addition, certain of these patents have currently been licensed to third parties on a non-exclusive basis. We believe that the development of new products and technological and design improvements to existing products will continue to be of primary importance in maintaining our competitive position.

Government Regulation and Quality Systems

The development, manufacture, sale and distribution of our products are subject to regulation by numerous agencies and legislative bodies, including the U.S. Food and Drug Administration ("FDA") and comparable foreign counterparts. In the United States, these regulations were enacted under the Medical Device Amendments of 1976 to the Federal Food, Drug and Cosmetic Act and its subsequent amendments, and the regulations issued or proposed thereunder.

The FDA's Quality System Regulations set forth requirements for our product design and manufacturing processes, require the maintenance of certain records, provide for on-site inspection of our facilities and continuing review by the FDA. Many of our products are also subject to industry-defined standards. Authorization to commercially market our products in the U.S. is granted by the FDA under a procedure referred to as a 510(k) pre-market notification. This process requires us to notify the FDA of the new product and obtain FDA clearance before marketing the device. We believe that our products and processes presently meet applicable standards in all material respects.

Medical device regulations continue to evolve world-wide. Products marketed in the European Union and other countries require preparation of technical files and design dossiers which demonstrate compliance with applicable international regulations. As government regulations continue to change, there is a risk that the distribution of some of our products may be interrupted or discontinued if they do not meet the country specific requirements.

We market our products in numerous foreign countries and therefore are subject to regulations affecting, among other things, product standards, sterilization, packaging requirements, labeling requirements, import laws and onsite inspection by

independent bodies with the authority to issue or not issue certifications we may require to be able to sell products in certain countries. Many of the regulations applicable to our devices and products in these countries are similar to those of the FDA. The member countries of the European Union have adopted the European Medical Device Directives, which create a single set of medical device regulations for all member countries. These regulations require companies that wish to manufacture and distribute medical devices in the European Union to maintain quality system certifications through European Union recognized Notified Bodies. These Notified Bodies authorize the use of the CE Mark allowing free movement of our products throughout the member countries. Requirements pertaining to our products vary widely from country to country, ranging from simple product registrations to detailed submissions such as those required by the FDA. We believe that our products and quality procedures currently meet applicable standards for the countries in which they are marketed.

As noted above, our facilities are subject to periodic inspection by the United States Food and Drug Administration ("FDA") and foreign regulatory agencies or notified bodies for, among other things, conformance to Quality System Regulation and Current Good Manufacturing Practice ("CGMP") requirements and foreign or international standards. Refer to Note 11 to the consolidated financial statements for further discussion.

Employees

As of December 31, 2017, we had approximately 3,100 full-time employees, including approximately 1,960 in operations, 140 in research and development and the remaining in sales, marketing and related administrative support. We believe that we have good relations with our employees and have never experienced a strike or similar work stoppage. None of our domestic employees are represented by a labor union.

Item 1A. Risk Factors

An investment in our securities, including our common stock, involves a high degree of risk. Investors should carefully consider the specific factors set forth below as well as the other information included or incorporated by reference in this Form 10-K. See "Forward Looking Statements".

Our financial performance is dependent on conditions in the healthcare industry and the broader economy.

The results of our business are directly tied to the economic conditions in the healthcare industry and the broader economy as a whole. We will continue to monitor and manage the impact of the overall economic environment on the Company.

In addition, approximately 20% of our revenues are derived from the sale of capital products. The sales of such products are negatively impacted if hospitals and other healthcare providers are unable to secure the financing necessary to purchase these products or otherwise defer purchases.

Our significant international operations subject us to foreign currency fluctuations and other risks associated with operating in countries outside the Untied States.

A significant portion of our revenues are derived from international sales. Approximately 48% of our total 2017 consolidated net sales were to customers outside the United States. We have sales subsidiaries in a significant number of countries in Europe as well as Australia, Canada, China and Korea. In those countries in which we have a direct presence, our sales are denominated in the local currency and those sales denominated in local currency amounted to approximately 33% of our total net sales in 2017. The remaining 15% of sales to customers outside the United States was on an export basis and transacted in United States dollars.

Because a significant portion of our operations consist of sales activities in jurisdictions outside the United States, our financial results may be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the markets in which we distribute products. While we have implemented a hedging strategy involving foreign currency forward contracts for 2017, our revenues and earnings are only partially protected from foreign currency translation if the United States dollar strengthens as compared with currencies such as the Euro. Further, as of the date of this Form 10-K, we have not entered into any foreign currency forward contracts beyond 2019. Our international presence exposes us to certain other inherent risks, including:

- imposition of limitations on conversions of foreign currencies into dollars or remittance of dividends and other payments by international subsidiaries;
- imposition or increase of withholding and other taxes on remittances and other payments by international subsidiaries;
- trade barriers;
- political risks, including political instability;
- reliance on third parties to distribute our products;

- hyperinflation in certain countries outside the United States; and
- imposition or increase of investment and other restrictions by foreign governments.

We cannot assure you that such risks will not have a material adverse effect on our business and results of operations.

Our financial performance is subject to the risks inherent in our acquisition strategy, including the effects of increased borrowing and integration of newly acquired businesses or product lines.

A key element of our business strategy has been to expand through acquisitions and we may seek to pursue additional acquisitions in the future. Our success is dependent in part upon our ability to integrate acquired companies or product lines into our existing operations. We may not have sufficient management and other resources to accomplish the integration of our past and future acquisitions and implementing our acquisition strategy may strain our relationship with customers, suppliers, distributors, personnel or others. There can be no assurance that we will be able to identify and make acquisitions on acceptable terms or that we will be able to obtain financing for such acquisitions on acceptable terms. In addition, while we are generally entitled to customary indemnification from sellers of businesses for any difficulties that may have arisen prior to our acquisition of each business, acquisitions may involve exposure to unknown liabilities and the amount and time for claiming under these indemnification provisions is often limited. As a result, our financial performance is now, and will continue to be, subject to various risks associated with the acquisition of businesses, including the financial effects associated with any increased borrowing required to fund such acquisitions or with the integration of such businesses.

Our financial performance may be adversely impacted by healthcare reform legislation.

Provisions of healthcare legislation, including provisions of the Patient Protection and Affordable Care Act ("ACA"), could meaningfully change the way health care is developed and delivered and may adversely affect our business and results of operations. For example, the ACA includes provisions aimed at improving quality and decreasing costs of Medicare, governing comparative effectiveness research, and implementing an independent payment advisory board and pilot programs to evaluate alternative payment methodologies. That legislation also included a 2.3% excise tax imposed upon sales within the U.S. of certain medical device products, which has been delayed until 2020. We also face uncertainties that might result in the modification or repeal of any provisions of the ACA, including as a result of current and future executive orders and legislative actions. The uncertainty associated with modifications or a repeal could generally cause healthcare markets to be unstable and we could be subject to some interruptions, the magnitude of which are impossible to determine, as healthcare providers, both facilities and medical professionals, who have benefited from the ACA determine the paths forward.

As a manufacturer of medical devices that interacts with physicians and health care providers domestically and internationally, we face risks under domestic and foreign regulations, including the Foreign Corrupt Practices Act.

Manufacturers of medical devices have been the subject of various investigations or enforcement actions relating to interactions with health care providers domestically or internationally. The interactions with domestic health care providers are subject to regulations, known as the Anti-Kickback Statute, the Stark Act and the False Claims Act, that generally govern incentives for health care providers, or methods of reimbursement funded in whole or in part by the government. Similarly, the Foreign Corrupt Practices Act (“FCPA”) prohibits certain conduct by manufacturers, generally described as bribery, with respect to interactions, either directly through foreign subsidiaries or indirectly through distributors, with health care providers who may be considered government officials because they are affiliated with public hospitals. The FCPA also imposes obligations on manufacturers listed on U.S. stock exchanges 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 can pose unique challenges for manufacturers who operate in foreign cultures where conduct prohibited by the FCPA may not

be viewed as 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.

In this regard, from time to time, the Company may receive an information request or subpoena 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 Department of Labor, the Treasury Department or other federal and state agencies or foreign governments or government agencies. Alternatively, employees or private parties may provide us with reports of alleged misconduct. These information requests or subpoenas may or may not be routine inquiries, or may begin as informal or routine inquiries and over time develop into investigations or enforcement actions of various types under the FCPA or otherwise. Similarly, the employee and third party reports may prompt us to conduct internal investigations into the alleged misconduct. As a medical device company, CONMED's operations and interactions with government hospitals, healthcare professionals and purchasers may be subject to various federal and state regulations, including the federal False Claims Act, which provides, in part, that the federal government may bring a lawsuit against any person or entity that it believes has knowingly presented, or caused

to be presented, a false or fraudulent request for payment to the government, or has made or used, or caused to be made or used, a false statement or false record material to a false claim. In addition, in certain circumstances, private parties may bring so-called Qui Tam claims as plaintiffs purportedly on behalf of the government asserting claims arising under the False Claims Act. A violation of the False Claims Act may result in fines up to $11,000 for each false claim, plus up to three times the amount of damages sustained by the government, and may also provide the basis for the imposition of administrative penalties and exclusion from participation in federal healthcare programs. Many states have enacted false claims acts that are similar to the federal False Claims Act. No inquiry or claim that the Company currently faces or has faced to date, and no report of misconduct that the Company has received to date, has had a material adverse effect on our financial condition, results of operations or cash flows. There can be no assurance, however, that any pending inquiries will become investigations or enforcement actions, or the costs associated with responding to such inquiries, investigations, enforcement actions or investigations relating to reports of misconduct will not have a material adverse effect on our financial condition, results of operations or cash flows.

Failure to comply with regulatory requirements may result in recalls, fines or materially adverse implications.

Substantially all of our products are classified as class II medical devices subject to regulation by numerous agencies and legislative bodies, including the FDA and comparable international counterparts. As a manufacturer of medical devices, our manufacturing processes and facilities are subject to on-site inspection and continuing review by the FDA for compliance with the Quality System Regulations. We may have future inspections at our sites and there can be no assurance that the costs of responding to such inspections will not be material.

Manufacturing and sales of our products outside the United States are also subject to international regulatory requirements which vary from country to country. Moreover, we are generally required to obtain regulatory clearance or approval prior to marketing a new product. The time required to obtain approvals from foreign countries may be longer or shorter than that required for FDA clearance, and requirements for such approvals may differ from FDA requirements. Failure to comply with applicable domestic and/or foreign regulatory requirements may result in:

- fines or other enforcement actions;
- recall or seizure of products;
- total or partial suspension of production;
- loss of certification;
- withdrawal of existing product approvals or clearances;
- refusal to approve or clear new applications or notices;
- increased quality control costs; or
- criminal prosecution.

Failure to comply with Quality System Regulations and applicable international regulations could result in a material adverse effect on our business, financial condition or results of operations.

If we are not able to manufacture products in compliance with regulatory standards, we may decide to cease manufacturing of those products and may be subject to product recall.

In addition to the Quality System Regulations, many of our products are also subject to industry-defined standards. We may not be able to comply with these regulations and standards due to deficiencies in component parts or our manufacturing processes. If we are not able to comply with the Quality System Regulations or industry-defined standards, we may not be able to fill customer orders and we may decide to cease production of non-compliant products. Failure to produce products could affect our profit margins and could lead to loss of customers.

Our products are subject to product recall and we have conducted product recalls in the past. Although no recall has had a material adverse effect on our business or financial condition, we cannot assure you that regulatory issues will not have a material adverse effect on our business, financial condition or results of operations in the future or that product recalls will not harm our reputation and our customer relationships.

The highly competitive market for our products may create adverse pricing pressures.

The market for our products is highly competitive and our customers have numerous alternatives of supply. Many of our competitors offer a range of products in areas other than those in which we compete, which may make such competitors more attractive to surgeons, hospitals, group purchasing organizations and others. In addition, many of our competitors are large, technically competent firms with substantial assets. Competitive pricing pressures or the introduction of new products by our competitors

could have an adverse effect on our revenues. See “Products” in Item 1 - Business for a further discussion of these competitive forces.

Factors which may influence our customers’ choice of competitor products include:

•changes in surgeon preferences;
•increases or decreases in healthcare spending related to medical devices;
•our inability to supply products to them as a result of product recall, market withdrawal or back-order;
•the introduction by competitors of new products or new features to existing products;
•the introduction by competitors of alternative surgical technology; and
•advances in surgical procedures, discoveries or developments in the healthcare industry.

We use a variety of raw materials in our businesses, and significant shortages or price increases could increase our operating costs and adversely impact the competitive positions of our products.

Our reliance on certain suppliers and commodity markets to secure raw materials used in our products exposes us to volatility in the prices and availability of raw materials. In some instances, we participate in commodity markets that may be subject to allocations by suppliers. A disruption in deliveries from our suppliers, price increases or decreased availability of raw materials or commodities could have an adverse effect on our ability to meet our commitments to customers or increase our operating costs. We believe that our supply management practices are based on an appropriate balancing of the foreseeable risks and the costs of alternative practices. Nonetheless, price increases or the unavailability of some raw materials may have an adverse effect on our results of operations or financial condition.

Cost reduction efforts in the healthcare industry could put pressures on our prices and margins.

In recent years, the healthcare industry has undergone significant change driven by various efforts to reduce costs. Such efforts include national healthcare reform, trends towards managed care, cuts in Medicare, consolidation of healthcare distribution companies and collective purchasing arrangements by GPOs and IDNs. Demand and prices for our products may be adversely affected by such trends.

We may not be able to keep pace with technological change or to successfully develop new products with wide market acceptance, which could cause us to lose business to competitors.

The market for our products is characterized by rapidly changing technology. Our future financial performance will depend in part on our ability to develop and manufacture new products on a cost-effective basis, to introduce them to the market on a timely basis and to have them accepted by surgeons.

We may not be able to keep pace with technology or to develop viable new products. In addition, many of our competitors are substantially larger with greater financial resources which may allow them to more rapidly develop new products. Factors which may result in delays of new product introductions or cancellation of our plans to manufacture and market new products include:

•capital constraints;
•research and development delays;
•delays in securing regulatory approvals; and
•changes in the competitive landscape, including the emergence of alternative products or solutions which reduce or eliminate the markets for pending products.

Our new products may fail to achieve expected levels of market acceptance.

New product introductions may fail to achieve market acceptance. The degree of market acceptance for any of our products will depend upon a number of factors, including:

- our ability to develop and introduce new products and product enhancements in the time frames we currently estimate;
- our ability to successfully implement new technologies;
- the market's readiness to accept new products;
- having adequate financial and technological resources for future product development and promotion;
- the efficacy of our products; and
- the prices of our products compared to the prices of our competitors' products.

If our new products do not achieve market acceptance, we may be unable to recover our investments and may lose business to competitors.

In addition, some of the companies with which we now compete, or may compete in the future, have or may have more extensive research, marketing and manufacturing capabilities and significantly greater technical and personnel resources than we do, and may be better positioned to continue to improve their technology in order to compete in an evolving industry. See “Products” in Item 1 - Business for a further discussion of these competitive forces.

Our senior credit agreement contains covenants which may limit our flexibility or prevent us from taking actions.

Our senior credit agreement contains, and future credit facilities are expected to contain, certain restrictive covenants which will affect, and in many respects significantly limit or prohibit, among other things, our ability to:

•incur indebtedness;
•make investments;
•engage in transactions with affiliates;
•pay dividends or make other distributions on, or redeem or repurchase, capital stock;
•sell assets; and
•pursue acquisitions.

These covenants, unless waived, may prevent us from pursuing acquisitions, significantly limit our operating and financial flexibility and limit our ability to respond to changes in our business or competitive activities. Our ability to comply with such provisions may be affected by events beyond our control. In the event of any default under our credit agreement, the credit agreement lenders may elect to declare all amounts borrowed under our credit agreement, together with accrued interest, to be due and payable. If we were unable to repay such borrowings, the credit agreement lenders could proceed against collateral securing the credit agreement which consists of substantially all of our property and assets. Our credit agreement also contains a material adverse effect clause which may limit our ability to access additional funding under our credit agreement should a material adverse change in our business occur.

Our leverage and debt service requirements may require us to adopt alternative business strategies.

As of December 31, 2017, we had $486.9 million of debt outstanding, representing 42% of total capitalization. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” and Note 6 to our consolidated financial statements.

The degree to which we are leveraged could have important consequences to investors, including but not limited to the following:

- a portion of our cash flow from operations must be dedicated to debt service and will not be available for operations, capital expenditures, acquisitions, dividends and other purposes;
- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or general corporate purposes may be limited or impaired or may be at higher interest rates;
- we may be at a competitive disadvantage when compared to competitors that are less leveraged;
- we may be hindered in our ability to adjust rapidly to market conditions;
- our degree of leverage could make us more vulnerable in the event of a downturn in general economic conditions or other adverse circumstances applicable to us; and
- our interest expense could increase if interest rates in general increase because a portion of our borrowings, including our borrowings under our credit agreement, are and will continue to be at variable rates of interest.

We may not be able to generate sufficient cash to service our indebtedness, which could require us to reduce our expenditures, sell assets, restructure our indebtedness or seek additional equity capital.

Our ability to satisfy our obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We may not have sufficient cash flow available to enable us to meet our obligations. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as foregoing acquisitions, reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking additional equity capital. We cannot assure you that any of these strategies could be implemented on terms acceptable to us, if at all. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources” for a discussion of our indebtedness and its implications.

We rely on a third party to obtain, process and distribute sports medicine allograft tissue. If such tissue cannot be obtained, is not accepted by the market or is not accepted under numerous government regulations, our results of operations could be negatively impacted.

A portion of our orthopedic revenues relate to our share of the service fees from the MTF allograft tissues for which we have exclusive promotion rights, as further described in our revenue recognition policy in Note 1 to the consolidated financial statements. Our primary costs related to these revenues come from our commission expense and certain marketing costs. Our ability to increase the service fees may be constrained by certain factors which are outside of our control, such as the limited supply of donors and donated tissue that meets the quality standards of MTF. Similarly, under the terms of the Joint Development and Distribution Agreement ("JDDA"), MTF remains responsible for tissue procurement and processing, shipment of tissues and invoicing of service fees to customers. To the extent MTF's performance does not meet customer expectations or otherwise fails, CONMED may be unable to increase the allograft service fees or to find a suitable replacement for MTF on terms that are acceptable.

The FDA and several states have statutory authority to regulate allograft processing and allograft-based materials. The FDA could identify deficiencies in future inspections of MTF or MTF's suppliers or promulgate future regulatory rulings that could disrupt our business, reducing profitability.

We could experience a failure of a key information technology system, process or site or a breach of information security, including a cybersecurity breach or failure of one or more key information technology systems, networks, processes, associated sites or service providers.

We rely extensively on information technology ("IT") systems for the storage, processing, and transmission of our electronic, business-related, information assets used in or necessary to conduct business. We leverage our internal information technology infrastructures, and those of our business partners, to enable, sustain, and support our global business activities. In addition, we rely on networks and services, including internet sites, data hosting and processing facilities and tools and other hardware, software and technical applications and platforms, some of which are managed, hosted, provided and/or used by third-parties or their vendors, to assist in conducting our business. The data we store and process may include customer payment information, personal information concerning our employees, confidential financial information, and other types of sensitive business-related information. In limited instances, we may also come into possession of information related to patients of our physician customers. Numerous and evolving cybersecurity threats pose potential risks to the security of our IT systems, networks and services, as well as the confidentiality, availability and integrity of our data. In addition, the laws and regulations governing security of data on IT systems and otherwise held by companies is evolving, and adding another layer of complexity in the form of new requirements. We have made, and continue to make investments, seeking to address these threats, including monitoring of networks and systems, hiring of experts, employee training and security policies for employees and third-party providers. The techniques used in these attacks change frequently and may be difficult to detect for periods of time and we may face difficulties in anticipating and implementing adequate preventative measures. While the breaches of our IT systems to date have not been material to our business or results of operations, the costs of attempting to protect IT systems and data may increase, and there can be no assurance that these added security efforts will prevent all breaches of our IT systems or thefts of our data. If our IT systems are damaged or cease to function properly, the networks or service providers we rely upon fail to function properly, or we or one of our third-party providers suffer a loss or disclosure of our business or stakeholder information due to any number of causes ranging from catastrophic events or power outages to improper data handling or security breaches and our business continuity plans do not effectively address these failures on a timely basis, we may be exposed to potential disruption in operations, loss of customers, reputational, competitive and business harm as well as significant costs from remediation, litigation and regulatory actions.

If we infringe third parties' patents, or if we lose our patents or they are held to be invalid, we could become subject to liability and our competitive position could be harmed.

Much of the technology used in the markets in which we compete is covered by patents. We have numerous U.S. patents and corresponding international patents on products expiring at various dates from 2018 through 2038 and have additional patent applications pending. See Item 1 Business "Research and Development" and "Intellectual Property" for a further description of our patents. The loss of our patents could reduce the value of the related products and any related competitive advantage. Competitors may also be able to design around our patents and to compete effectively with our products. In addition, the cost of enforcing our patents against third parties and defending our products against patent infringement actions by others could be substantial. We cannot assure you that:

- pending patent applications will result in issued patents;
- patents issued to or licensed by us will not be challenged by competitors;
- our patents will be found to be valid or sufficiently broad to protect our technology or provide us with a competitive advantage; or

- we will be successful in defending against pending or future patent infringement claims asserted against our products.

Ordering patterns of our customers may change resulting in reductions in sales.

Our hospital and surgery center customers purchase our products in quantities sufficient to meet their anticipated demand. Likewise, our healthcare distributor customers purchase our products for ultimate resale to healthcare providers in quantities sufficient to meet the anticipated requirements of the distributors' customers. Should inventories of our products owned by our hospital, surgery center and distributor customers grow to levels higher than their requirements, our customers may reduce the ordering of products from us. This could result in reduced sales during a financial accounting period.

We can be sued for producing defective products and our insurance coverage may be insufficient to cover the nature and amount of any product liability claims.

The nature of our products as medical devices and today's litigious environment should be regarded as potential risks which could significantly and adversely affect our financial condition and results of operations. The insurance we maintain to protect against claims associated with the use of our products has deductibles and may not adequately cover the amount or nature of any claim asserted against us. We are also exposed to the risk that our insurers may become insolvent or that premiums may increase substantially. See "Item 3 - Legal Proceedings" for a further discussion of the risk of product liability actions and our insurance coverage.

Damage to our physical properties as a result of windstorm, earthquake, fire or other natural or man-made disaster may cause a financial loss and a loss of customers.

Although we maintain insurance coverage for physical damage to our property and the resultant losses that could occur during a business interruption, we are required to pay deductibles and our insurance coverage is limited to certain caps. For example, our deductible for windstorm damage to our Florida property amounts to 2% of any loss.

Further, while insurance reimburses us for our lost gross earnings during a business interruption, if we are unable to supply our customers with our products for an extended period of time, there can be no assurance that we will regain the customers' business once the product supply is returned to normal.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Facilities

The following table sets forth certain information with respect to our principal operating facilities. We believe that our facilities are generally well maintained, are suitable to support our business and adequate for present and anticipated needs.

Location	Square Feet	Own or Lease	Lease Expiration
Utica, NY	500,000	Own	—
Largo, FL	278,000	Own	—
Chihuahua, Mexico	207,720	Lease	September 2019
Chihuahua, Mexico	40,626	Lease	March 2028
Lithia Springs, GA	188,400	Lease	December 2019
Brussels, Belgium	58,276	Lease	June 2024
Milford, CT	40,542	Lease	November 2020
Mississauga, Canada	22,378	Lease	December 2018
Greenwood Village, CO	22,162	Lease	April 2024
Westborough, MA	19,515	Lease	June 2020
Frenchs Forest, Australia	16,912	Lease	July 2020
Seoul, Korea	15,585	Lease	January 2020
Anaheim, CA	14,037	Lease	August 2018
Frankfurt, Germany	13,606	Lease	March 2023
Milan, Italy	13,024	Lease	March 2023
Barcelona, Spain	12,820	Lease	December 2023
Swindon, Wiltshire, UK	8,562	Lease	December 2020
Askim, Sweden	8,353	Lease	May 2019
Lyon, France	7,492	Lease	November 2026
Beijing, China	6,799	Lease	June 2018
Beijing, China	3,456	Lease	September 2019
Copenhagen, Denmark	5,899	Lease	October 2018
Shanghai, China	4,308	Lease	August 2021
New York, NY	3,473	Lease	September 2022
Warsaw, Poland	3,222	Lease	February 2023
Espoo, Finland	3,078	Lease	Open Ended
Innsbruck, Austria	1,820	Lease	June 2020
Tokyo, Japan	1,339	Lease	January 2019

Our principal manufacturing facilities are located in Utica, NY, Largo, FL and Chihuahua, Mexico. Lithia Springs, GA and Brussels, Belgium are our principal distribution centers. The remaining facilities are generally sales and administrative offices with certain offices also including smaller distribution centers.

Item 3. Legal Proceedings

We are involved in various proceedings, legal actions and claims arising in the normal course of business, including proceedings related to product, labor and intellectual property and other matters that are more fully described in Note

11 to the consolidated financial statements. We are not a party to any pending legal proceedings other than ordinary routine litigation incidental to our business.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock, par value $.01 per share, is traded on the NASDAQ Stock Market under the symbol "CNMD". At January 31, 2018, there were 567 registered holders of our common stock and approximately 5,333 accounts held in "street name".

The following table sets forth quarterly high and low closing sales prices for the years ended December 31, 2017 and 2016, as reported by the NASDAQ Stock Market.

	2017	
Period	High	Low
First Quarter	$45.55	$40.11
Second Quarter	52.49	43.50
Third Quarter	52.52	48.38
Fourth Quarter	54.24	49.30

	2016	
Period	High	Low
First Quarter	$42.61	$36.16
Second Quarter	47.73	38.97
Third Quarter	50.00	38.48
Fourth Quarter	46.45	37.75

Our Board of Directors has authorized a share repurchase program; see Note 8 to the consolidated financial statements.

The Board of Directors declared a quarterly cash dividend of $0.20 per share in 2016 and 2017. The fourth quarter dividend for 2017 was paid on January 5, 2018 to shareholders of record as of December 15, 2017. The total dividend payable at December 31, 2017 was $5.6 million and is included in other current liabilities in the consolidated balance sheet. Future decisions as to the payment of dividends will be at the discretion of the Board of Directors, subject to conditions then existing, including our financial requirements and condition and the limitation and payment of cash dividends contained in debt agreements.

Refer to Item 12 for information relating to compensation plans under which equity securities of CONMED Corporation are authorized for issuance.

Performance Graph

The performance graph below compares the yearly percentage change in the Company's Common Stock with the cumulative total return of the NASDAQ Composite Index and the cumulative total return of the Standard & Poor's Health Care Equipment Index. In each case, the cumulative total return assumes reinvestment of dividends into the same class of equity securities at the frequency with which dividends are paid on such securities during the applicable fiscal year.

Item 6. Selected Financial Data

The following table sets forth selected historical financial data for the years ended December 31, 2017, 2016, 2015, 2014 and 2013. The financial data set forth below should be read in conjunction with the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Form 10-K and the Consolidated Financial Statements of the Company and the notes thereto.

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(In thousands, except per share data)				
Statements of Operations Data [1]:					
Net sales	$796,392	$763,520	$719,168	$740,055	$762,704
Cost of sales [2]	365,351	355,190	337,466	335,998	350,287
Gross profit	431,041	408,330	381,702	404,057	412,417
Selling and administrative expense [3]	351,799	338,400	303,091	323,492	330,078
Research and development expense	32,307	32,254	27,436	27,779	25,831
Income from operations	46,935	37,676	51,175	52,786	56,508
Other expense [4]	—	2,942	—	—	263
Interest expense	18,203	15,359	6,031	6,111	5,613
Income before income taxes	28,732	19,375	45,144	46,675	50,632
Provision (benefit) for income taxes[5]	(26,755)	4,711	14,646	14,483	14,693
Net income	$55,487	$14,664	$30,498	$32,192	$35,939
Per Share Data:					
Basic earnings per share	$1.99	$0.53	$1.10	$1.17	$1.30
Diluted earnings per share	$1.97	$0.52	$1.09	$1.16	$1.28
Dividends per share of common stock	$0.80	$0.80	$0.80	$0.80	$0.65
Weighted Average Number of Common Shares In Calculating:					
Basic earnings per share	27,939	27,804	27,653	27,401	27,722
Diluted earnings per share	28,171	27,964	27,858	27,769	28,114
Other Financial Data:					
Depreciation and amortization	$58,548	$55,309	$43,879	$45,734	$47,867
Capital expenditures	12,842	14,753	15,009	15,411	18,445
Balance Sheet Data (at period end):					
Cash and cash equivalents	$32,622	$27,428	$72,504	$66,332	$54,443
Total assets[6]	1,357,961	1,328,983	1,101,700	1,086,703	1,079,881
Long-term obligations[6]	576,526	634,455	396,909	389,449	362,336
Total shareholders' equity	631,432	580,576	585,073	581,298	606,319

(1) Results of operations of acquired businesses have been recorded in the financial statements since the date of acquisition. Refer to Note 2 to the consolidated financial statements.

(2)

In 2017, 2016, 2015, 2014 and 2013, we incurred charges related to the restructuring of certain of our manufacturing operations of $2.9 million, $3.1 million, $8.0 million, $5.6 million and $6.5 million, respectively; in 2016 and 2013 we

incurred charges of $4.5 million and $2.1 million, respectively, related to the termination of a product offering. See additional discussion in Note 12 to the consolidated financial statements.

(3) Acquisition, restructuring and other expense included in selling and administrative costs are the following:

	2017	2016	2015	2014	2013
Restructuring costs	$1,347	$6,670	$13,655	$3,354	$8,750
Business acquisition costs	2,336	17,029	2,543	722	—
Legal matters	17,480	3,773	—	—	—
Gain on sale of facility	—	(1,890)	—	—	—
Management restructuring costs	—	—	—	12,546	—
Shareholder activism costs	—	—	—	3,966	—
Patent dispute and other matters	—	—	—	3,374	3,206
Pension settlement expense	—	—	—	—	1,443
Acquisition, restructuring and other expense included in selling and administrative expense	$21,163	$25,582	$16,198	$23,962	$13,399

See additional discussion in Notes 2, 11 and 12 to the consolidated financial statements.

(4) During 2016, we incurred a $2.7 million charge related to commitment fees paid to certain of our lenders, which provided a financing commitment for the SurgiQuest acquisition and recorded a loss on the early extinguishment of debt of $0.3 million in conjunction with the fifth amended and restated senior credit agreement as further described in Note 6 to the consolidated financial statements. In 2013, we recorded a $0.3 million charge related to a loss on the early extinguishment of debt.

(5) During 2017, we recorded a deferred tax benefit of $31.9 million as a result of the 2017 Tax Cuts and Jobs Act. Refer to Note 7 to the consolidated financial statements for further details.

(6) In November 2015, the FASB issued ASU No. 2015-17 "Income Taxes (ASC 740): Balance Sheet Classification of Deferred Taxes". This ASU requires all deferred income tax assets and liabilities be presented as non-current in classified balance sheets. We adopted this guidance as of January 1, 2016 and applied retrospectively.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with Selected Financial Data (Item 6), and our Consolidated Financial Statements and related notes contained elsewhere in this report.

Overview of CONMED Corporation

CONMED Corporation ("CONMED", the "Company", "we" or "us") is a medical technology company that provides surgical devices and equipment for minimally invasive procedures. The Company's products are used by surgeons and physicians in a variety of specialties including orthopedics, general surgery, gynecology, neurosurgery and gastroenterology.

Beginning in fiscal year 2017, we adjusted our product line disclosures to align with the way we review net sales. In doing so, we consolidated our surgical visualization product line into our orthopedic surgery product line for all years presented. Our product lines consist of orthopedic surgery and general surgery. Orthopedic surgery consists of sports medicine instrumentation and small bone, large bone and specialty powered surgical instruments as well as, imaging systems for use in minimally invasive surgery procedures including 2DHD and 3DHD vision technologies and service fees related to the promotion and marketing of sports medicine allograft tissue. General surgery consists of a complete line of endo-mechanical instrumentation for minimally invasive laparoscopic and gastrointestinal procedures, a line of cardiac monitoring products as well as electrosurgical generators and related instruments. These product lines as a percentage of consolidated net sales are as follows:

	2017	2016	2015
Orthopedic surgery	54 %	55 %	62 %
General surgery	46	45	38
Consolidated net sales	100%	100%	100%

A significant amount of our products are used in surgical procedures with approximately 80% 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 48%, 48% and 50% in 2017, 2016 and 2015, respectively.

Business Environment

On January 4, 2016, we acquired SurgiQuest, Inc. ("SurgiQuest") for $265 million in cash (on a cash-free, debt-free basis). SurgiQuest develops, manufactures and markets the AirSeal® System, the first integrated access management technology for use in laparoscopic and robotic procedures. This proprietary and differentiated access system is complementary to our current general surgery offering. In connection with the SurgiQuest acquisition, we assumed a lawsuit filed in 2013 by Lexion Medical ("Lexion") against SurgiQuest. On April 11, 2017, the trial for this lawsuit concluded with the jury awarding $2.2 million in compensatory damages with an additional $10.0 million in punitive damages to Lexion. Refer to Note 2 to the consolidated financial statements for further details on this acquisition and Note 11 to the consolidated financial statements for further details on the lawsuit.

During 2017, we recorded a deferred tax benefit of $31.9 million as a result of the 2017 Tax Cuts and Jobs Act. Although we are still assessing the overall impact, we believe this Act will result in a lower tax on domestic earnings than we have historically recorded. Refer to Note 7 to the consolidated financial statements for further details.

We plan to continue to restructure both operations and administrative functions as necessary throughout the organization. We have successfully executed our restructuring plans over the past few years, however, we cannot be certain future activities will be completed in the estimated time period or that planned cost savings will be achieved.

Critical Accounting Policies

Preparation of our financial statements requires us to make estimates and assumptions which affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the consolidated financial statements describes the significant accounting policies used in preparation of the consolidated financial statements. The most significant areas involving management judgments

and estimates are described below and are considered by management to be critical to understanding the financial condition and results of operations of CONMED Corporation.

Inventory Valuation

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

Goodwill and Intangible Assets

We have a history of growth through acquisitions. Assets and liabilities of acquired businesses are recorded at their estimated fair values as of the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Factors that contribute to the recognition of goodwill include synergies that are specific to our business and are expected to increase net sales and profits; acquisition of a talented workforce; cost savings opportunities; the strategic benefit of expanding our presence in core and adjacent markets; and diversifying our product portfolio. Customer and distributor relationships, trademarks, tradenames, developed technology, patents and other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. Promotional, marketing and distribution rights represent intangible assets created under our Sports Medicine Joint Development and Distribution Agreement (the "JDDA") with Musculoskeletal Transplant Foundation (“MTF”).

Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to at least annual impairment testing. It is our policy to perform our annual impairment testing in the fourth quarter. The identification and measurement of goodwill impairment involves the estimation of the fair value of our business. Estimates of fair value are based on the best information available as of the date of the assessment. We completed our goodwill impairment testing during the fourth quarter of 2017. We performed our impairment test utilizing the market capitalization approach to determine whether the fair value of a reporting unit is less than its carrying amount. Based upon our assessment, the fair value continues to exceed carrying value.

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

For all other indefinite-lived intangible assets, we perform a qualitative impairment test. Based upon this assessment, we have determined that our indefinite-lived intangible assets are not impaired.

See Note 5 to the consolidated financial statements for further discussion of goodwill and other intangible assets.

Pension Plan

We sponsor a defined benefit pension plan (the “pension plan”) that was frozen in 2009. It covered substantially all our United States based employees at the time it was frozen. Major assumptions used in accounting for the plan include the discount rate, expected return on plan assets and expected mortality. Assumptions are determined based on Company data and appropriate market indicators, and are evaluated annually as of the plan’s measurement date. A change in any of these assumptions would have an effect on net periodic pension costs reported in the consolidated financial statements.

The weighted-average discount rate used to measure pension liabilities at December 31, 2017 and the estimated 2018 pension expense is set by reference to the Mercer Above Mean Yield Curve. When setting the discount rate, we consider the individual characteristics of the plan, such as projected cash flow patterns. The effective rates used in determining the December 31, 2017 and 2016 pension liabilities were 3.69% and 4.28%, respectively. Effective rates of 4.28% and 4.54% were used for determining the pension liabilities that are the basis for the 2017 and 2016 pension expense, respectively. As further discussed in Note 10 to the consolidated financial statements, in 2016 we changed the method used to estimate the interest cost component of

the pension expense to the spot rate approach resulting in an effective rate of interest equal to 3.49% and 3.77% for 2017 and 2016, respectively. The rate used in determining 2018 estimated pension expense is 3.69% for the benefit obligation and 3.28% for the effective interest rate on the benefit obligation.

We have used an expected rate of return on pension plan assets of 8.0% for purposes of determining the net periodic pension benefit cost for 2017 and plan to use 7.5% for 2018 based on our year-end analysis of probable returns based on our asset mix. In determining the expected return on pension plan assets, we consider the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. In addition, we consult with financial and investment management professionals in developing appropriate targeted rates of return.

Pension expense in 2018 is expected to be $0.8 million. Pension expense was $0.9 million in 2017. In addition, we do not expect to make any contributions to the pension plan for the 2018 plan year.

In performing a sensitivity analysis on our pension plan expense, we do not believe a 0.25% increase or decrease in discount rate or investment return would have a material impact on our pension expense.

See Note 10 to the consolidated financial statements for further discussion.

Stock-based Compensation

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

Income Taxes

The recorded future tax benefit arising from deductible temporary differences and tax carryforwards is approximately $50.2 million at December 31, 2017. Management believes that earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future income tax benefits.

The Company is subject to taxation in the United States and various states and foreign jurisdictions. Taxing authority examinations can involve complex issues and may require an extended period of time to resolve. Our federal income tax returns have been examined by the Internal Revenue Service (“IRS”) for calendar years ending through 2016. Tax years subsequent to 2016 are subject to future examination.

Consolidated Results of Operations

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

	Years Ended December 31,		
	2017	2016	2015
Net sales	100.0 %	100.0%	100.0%
Cost of sales	45.9	46.5	46.9
Gross profit	54.1	53.5	53.1
Selling and administrative expense	44.2	44.3	42.1

Research and development expense	4.1	4.2	3.8
Income from operations	5.9	4.9	7.1
Other expense	—	0.4	—
Interest expense	2.3	2.0	0.8
Income before income taxes	3.6	2.5	6.3
Provision (benefit) for income taxes	(3.4)	0.6	2.0
Net income	7.0%	1.9%	4.2%

Net Sales

The following table presents net sales by product line for the years ended December 31, 2017, 2016 and 2015:

	Years Ended			% Change from 2016 to 2017		% Change from 2015 to 2016	
	2017	2016	2015	As Reported	Constant Currency	As Reported	Constant Currency
Orthopedic surgery	$428.9	$422.1	$445.0	1.6%	1.5 %	-5.1 %	-2.3 %
General surgery	367.5	341.4	274.2	7.6%	7.8 %	24.5 %	26.0 %
Net sales	$796.4	$763.5	$719.2	4.3%	4.3 %	6.2 %	8.6 %
Single-use products	$637.0	$605.8	$567.3	5.2%	5.2 %	6.8 %	9.3 %
Capital products	159.4	157.7	151.9	1.1%	1.0 %	3.8 %	6.1 %
Net sales	$796.4	$763.5	$719.2	4.3%	4.3 %	6.2 %	8.6 %

Net sales increased 4.3% to $796.4 million in 2017 and 6.2% in 2016 to $763.5 million from $719.2 million in 2015. The increase in 2017 was due to the continued growth in general surgery and the return to growth in orthopedic surgery, as described below. The increase in 2016 sales compared to the same period 2015 was mainly due to growth in our General Surgery product line due to the SurgiQuest acquisition.

- Orthopedic surgery sales increased 1.6% in 2017 to $428.9 million after a decrease of 5.1% in 2016 to $422.1 million from $445.0 million in 2015. In 2017, the increase was mainly driven by our sports medicine offerings, including new product introductions, partially offset by lower capital sales. In 2016, the decrease was mainly due to the unfavorable impact of foreign exchange, lower sales in our capital products and resection product offering offset by increases in our procedure specific product offering.

- General surgery sales increased 7.6% in 2017 to $367.5 million after an increase of 24.5% in 2016 to $341.4 million from $274.2 million in 2015. The increase in 2017 was driven primarily by sales growth of our advanced surgical product offering, particularly in AirSeal® and new product introductions, and endoscopic technologies products, particularly in new product introductions. The increase in 2016 was mainly due to the SurgiQuest acquisition.

Cost of Sales

Cost of sales was $365.4 million in 2017, $355.2 million in 2016 and $337.5 million in 2015. Gross profit margins were 54.1% in 2017, 53.5% in 2016 and 53.1% in 2015. The increase in gross profit margins of 0.6 percentage points in 2017 was mainly the result of reduced restructuring costs. The increase of 0.4 percentage points in 2016 was mainly a result of the impact of favorable production variances (1.2 percentage points) and product mix (0.3 percentage points), partially offset by unfavorable foreign currency exchange rates on sales (1.1 percentage points).

Selling and Administrative Expense

Selling and administrative expense was $351.8 million in 2017, $338.4 million in 2016 and $303.1 million in 2015. Selling and administrative expense as a percentage of net sales was 44.2% in 2017, 44.3% in 2016 and 42.1% in 2015.

The factors affecting the 0.1 percentage point decrease in selling and administrative expense as a percentage of net sales in 2017 as compared to the same period a year ago included (1) a $14.7 million decrease in costs associated with

the SurgiQuest acquisition in 2016 as further described in Notes 2 and 12 and (2) a $5.3 million decrease in severance and other related costs from the restructuring of certain of our sales, marketing and administrative functions as further described in Note 12. These decreases were offset by (1) $12.2 million in costs associated with the SurgiQuest, Inc. vs. Lexion Medical litigation verdict as further described in Notes 11 and 12, (2) a $1.5 million increase in legal fees associated with this litigation as well as other legal matters as further described in Note 12 (3) the $1.9 million gain on the sale of our Centennial, CO facility in 2016 as further described in Note 12 and (4) higher selling and administrative expense to support the growth of the Company.

The significant factors affecting the 2.2 percentage point increase in selling and administrative expense as percentage of net sales in 2016 as compared to 2015 included (1) a $14.5 million increase in business acquisition costs due to the SurgiQuest acquisition as further described in Notes 2 and 12, (2) $3.8 million in legal fees during 2016 associated with the SurgiQuest, Inc. vs. Lexion Medical litigation as further described in Notes 11 and 12 and (3) incremental on-going sales and marketing expenses primarily related to the Airseal® products. These increases were offset by (1) a $7.0 million decrease in severance and other related costs from the restructuring of certain sales, marketing and administrative functions as further described in Note 12 and (2) the $1.9 million gain on the sale of our Centennial, CO facility in 2016 as described in Note 12.

Research and Development Expense

Research and development expense was $32.3 million, $32.3 million and $27.4 million in 2017, 2016 and 2015, respectively. As a percentage of net sales, research and development expense was 4.1% in 2017, 4.2% in 2016 and 3.8% in 2015. Expense remained flat in 2017 compared to 2016 due to the timing of projects. The increase of 0.4 percentage points in 2016 is due to higher project and registration related costs as the Company increased its efforts on new product development and innovation.

Other Expense

Other expense in 2016 related to costs associated with our fifth amended and restated senior credit agreement entered into on January 4, 2016 as further described in Note 6 to the consolidated financial statements. These costs include a $2.7 million charge related to commitment fees paid to certain of our lenders, which provided a financing commitment for the SurgiQuest acquisition and a loss on the early extinguishment of debt of $0.3 million.

Interest Expense

Interest expense was $18.2 million in 2017 compared to $15.4 million in 2016 and $6.0 million in 2015. Interest expense increased in 2017 and 2016 as compared to 2015 due to the additional borrowings and higher interest rates under the fifth amended and restated senior credit agreement as further described in Note 6 to the consolidated financial statements. The weighted average interest rates on our borrowings were 3.52% in 2017 increasing from 2.93% in 2016 and 2.23% in 2015.

Provision (Benefit) for Income Taxes

A provision (benefit) for income taxes was recorded at an effective rate of -93.1%, 24.3% and 32.4% in 2017, 2016 and 2015, respectively, as compared to the federal statutory rate of 35.0%. The effective tax rate in 2017 is lower than that recorded in 2016 due to the 2017 Tax Cuts and Jobs Act and consolidated group restructuring. The effective tax rate in 2016 is lower than that recorded in 2015 due to a higher proportion of earnings in foreign jurisdictions where the tax rates were lower than the statutory federal rate and benefits recorded in 2016 in connection with the prior year tax return finalization process. These benefits were offset by tax expense related to nondeductible SurgiQuest acquisition costs recorded in 2016. A reconciliation of the United States statutory income tax rate to our effective tax rate is included in Note 7 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 fifth 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 fifth amended and restated senior credit agreement and borrowings under separate

loan facilities, in the case of real property purchases, to finance our acquisitions. We also have the ability to raise funds through the sale of stock or we may issue debt through a private placement or public offering. Management believes that cash flow from operations, including cash and cash equivalents on hand and available borrowing capacity under our fifth amended and restated senior credit agreement, will be adequate to meet our anticipated operating working capital requirements, debt service, funding of capital expenditures and common stock repurchases in the foreseeable future.

We had total cash on hand at December 31, 2017 of $32.6 million, of which approximately $26.6 million was held by our foreign subsidiaries outside the United States with unremitted earnings. During the fourth quarter of 2017, we redeployed cash from certain non-U.S. subsidiaries for U.S. debt reduction of $15.5 million which consisted of earnings that were taxed in 2017 as part of the deemed repatriation toll charge implemented by the Tax Cuts and Jobs Act. If we were to repatriate the remaining unremitted earnings that have been taxed as part of the deemed repatriation toll charge, we would be required to accrue and pay withholding taxes in certain foreign jurisdictions. We have accrued an estimated provisional deferred tax liability for foreign withholding taxes related to the amount of unremitted earnings at December 31, 2017 that are not considered permanently reinvested. Our evaluation of the accounting for deferred taxes on unremitted earnings will be completed within the measurement period prescribed by Staff Accounting Bulletin No. 118.

Operating Cash Flows

Our net working capital position was $206.8 million at December 31, 2017. Net cash provided by operating activities was $65.6 million in 2017, $39.9 million in 2016 and $50.9 million in 2015 generated on net income of $55.5 million in 2017, $14.7 million in 2016 and $30.5 million in 2015.

The increase in cash flows from operating activities in 2017 compared to 2016 is mainly related to the prior year having significant cash outflows resulting from the SurgiQuest, Inc. acquisition whereby 2017 has a $12.2 million accrual related to the Lexion trial verdict, as further described in Note 11 to the consolidated financial statements. In addition, other significant changes in assets and liabilities affecting cash flows include the following:

- A decrease in cash flows from accounts receivable reflects an $18.5 million increase in sales in the fourth quarter of 2017 compared to the same period a year ago;
- A decrease in cash flows from inventory is caused primarily by an increase in production to support anticipated sales growth;
- A decrease in cash flows from other assets is due to higher levels of equipment used for demonstration; and
- An increase in cash flows from other liabilities is caused primarily by the aforementioned Lexion trial verdict accrual.

The decrease in cash provided by operating activities from 2016 to 2015 is mainly related to lower net income due to costs associated with the SurgiQuest acquisition and related financing costs, as discussed above.

Investing Cash Flows

Net cash used in investing activities decreased to $29.1 million in 2017 compared to $266.0 million in 2016 primarily due to the $16.2 million in payments related to business and asset acquisitions compared to the $256.5 million payment for the SurgiQuest acquisition in 2016. The decrease was offset by $5.2 million in proceeds from the sale of our Centennial, Colorado facility during 2016.

Net cash used in investing activities increased to $266.0 million in 2016 compared to $24.4 million in 2015 primarily due to the $256.5 million payment for the SurgiQuest acquisition in 2016 compared to $9.4 million in payments related to acquiring businesses, assets and a distributor in 2015. This increase was also offset by $5.2 million in proceeds from the sale of our Centennial, Colorado facility during 2016.

Capital expenditures were $12.8 million, $14.8 million and $15.0 million in 2017, 2016 and 2015, respectively. Capital expenditures are expected to be in the $15.0 million to $20.0 million range for 2018.

Financing Cash Flows

Financing activities in 2017 used cash of $34.9 million compared to providing cash of $182.5 million in 2016 and a use of cash of $12.6 million in 2015. Below is a summary of the significant financing activities:

- During 2016, we had borrowings of $175.0 million on our term loan and repaid $8.8 million in 2017 and the same amount in 2016 in accordance with the agreement, as further described below. During 2017, we had net repayments on our revolving line of credit of $2.0 million compared to net borrowings of $62.7 million in 2016 and $30.7 million in 2015.

- Dividend payments remained consistent at $22.3 million, $22.2 million and $22.1 million in 2017, 2016 and 2015, respectively.

- In 2016 and 2015, we made the final two payments of $16.7 million associated with the distribution and development agreement with Musculoskeletal Transplant Foundation.

- Debt issuance costs were $5.6 million and $1.5 million in 2016 and 2015, respectively, in conjunction with our fifth and fourth amended and restated senior credit agreements, respectively.

On January 4, 2016, we entered into a fifth amended and restated senior credit agreement consisting of: (a) a $175.0 million term loan facility and (b) a $525.0 million revolving credit facility both expiring on January 4, 2021. 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 and to finance the acquisition of SurgiQuest. Interest rates are at LIBOR plus 2.00% (3.57% at December 31, 2017). For those borrowings where we elect to use the alternative base rate, the base rate will be the greater of the Prime Rate, the Federal Funds Rate plus 0.50% or the one-month Eurocurrency Rate Plus 1.00%.

There were $157.5 million in borrowings outstanding on the term loan as of December 31, 2017. There were $327.0 million in borrowings outstanding under the revolving credit facility as of December 31, 2017. Our available borrowings on the revolving credit facility at December 31, 2017 were $194.9 million with approximately $3.1 million of the facility set aside for outstanding letters of credit.

The fifth amended and restated senior credit agreement is collateralized by substantially all of our personal property and assets. The fifth 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 December 31, 2017. We are also required, under certain circumstances, to make mandatory prepayments from net cash proceeds from any issuance of equity and asset sales.

We have a mortgage note outstanding in connection with the Largo, Florida property and facilities bearing interest at 8.25% per annum with semiannual payments of principal and interest through June 2019. The principal balance outstanding on the mortgage note aggregated $2.4 million at December 31, 2017. The mortgage note is collateralized by the Largo, Florida property and facilities.

Our Board of Directors has authorized a $200.0 million share repurchase program. Through December 31, 2017, 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 did not purchase any shares of common stock under the share repurchase program during 2017. We have financed the repurchases and may finance additional repurchases through operating cash flow and from available borrowings under our revolving credit facility.

Management believes that cash flow from operations, including cash and cash equivalents on hand and available borrowing capacity under our amended and restated senior credit agreement, will be adequate to meet our anticipated operating working capital requirements, debt service, funding of capital expenditures and common stock repurchases in the foreseeable future. See “Item 1. Business – Forward Looking Statements.”

Restructuring

For the years ending December 31, 2017, 2016 and 2015, we incurred $2.9 million, $3.1 million and $8.0 million, respectively, in costs associated with operational restructuring. These costs were charged to cost of sales and include severance, inventory and other charges. As part of this plan, we engaged a consulting firm to assist us in streamlining our product offering and improving our operational efficiency. As a result, we identified certain catalog numbers to be discontinued and consolidated into existing product offerings and recorded a $1.3 million charge in the year ended December 31, 2017 to write-off inventory

which will no longer be offered for sale. This amount is included in the above total for 2017.

During 2016, the Company discontinued our Altrus product offering as part of our ongoing restructuring and incurred $4.5 million in non-cash charges primarily related to inventory and fixed assets which were included in cost of sales.

During 2017, 2016 and 2015, we restructured certain sales, marketing and administrative functions and incurred severance and other related costs in the amount of $1.3 million, $6.7 million and $13.7 million. These costs were charged to selling and administrative expense.

During 2016, we sold our Centennial, Colorado facility. We received net cash proceeds of $5.2 million and recorded a gain of $1.9 million in selling and administrative expense.

We have reduced our restructuring accrual in current and long term liabilities to $1.3 million at December 31, 2017 primarily through severance payments.

During recent years we had a number of initiatives to consolidate manufacturing facilities and restructure our sales and administrative functions. Although much of this is complete, we will continue to review our operations and sales and administrative functions to reduce costs and headcount, as necessary. Such cost reductions will result in additional charges, including employee termination costs and other exit costs that will be charged to cost of sales and selling and administrative expense, as applicable.

Refer to Note 12 to the consolidated financial statements for further discussions regarding restructuring.

Contractual Obligations

The following table summarizes our contractual obligations for the next five years and thereafter (amounts in thousands) as of December 31, 2017. Purchase obligations represent purchase orders for goods and services placed in the ordinary course of business.

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt	$486,910	$14,699	$35,836	$436,375	$—
Purchase obligations	48,832	48,080	752	—	—
Lease obligations	24,956	7,078	9,927	4,338	3,613
Total contractual obligations	$560,698	$69,857	$46,515	$440,713	$3,613

In addition to the above contractual obligations, we are required to make periodic interest payments on our long-term debt obligations (see additional discussion under Item 7A. “Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk” and Note 6 to the consolidated financial statements). The above table also does not include unrecognized tax benefits of approximately $2.6 million, the timing and certainty of recognition for which is not known (See Note 7 to the consolidated financial statements).

Stock-based Compensation

We have reserved shares of common stock for issuance to employees and directors under three shareholder-approved share-based compensation plans (the "Plans"). The Plans provide for grants of stock options, stock appreciation rights (“SARs”), dividend equivalent rights, restricted stock, restricted stock units (“RSUs”), performance share units (“PSUs”) and other equity-based and equity-related awards. The exercise price on all outstanding stock options and SARs is equal to the quoted fair market value of the stock at the date of grant. RSUs and PSUs are valued at the market value of the underlying stock on the date of grant. Stock options, SARs, RSUs and PSUs are non-transferable other than on death and generally become exercisable over a five year period from date of grant. Stock options and SARs expire ten years from date of grant. SARs are only settled in shares of the Company’s stock (See Note 8 to the consolidated financial statements). Total pre-tax stock-based compensation expense recognized in the consolidated statements of comprehensive income was $8.5 million, $8.4 million and $7.5 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Other Matters

Our credit facility allows us to seek to sell products to certain customers in Iran in compliance with applicable laws and regulations and subject to certain terms and conditions, including pre-approval by us and our lenders of the identity of any distributor and prior review of each of the end-customers. We had sales to a third-party distributor in Iran during 2017 and expect there will be sales prospectively. We intend to limit sales into Iran to products that qualify as "medical supplies" within the meaning of the general license, or covered by specific licenses, provided by the Iranian Transactions and Sanctions Regulations set forth in the regulations promulgated by the Office of Foreign Assets Control ("OFAC") of the United States Department of the Treasury set forth at 31 C.F.R. § 560.530. We have implemented certain controls and processes designed to ensure that the ultimate end-users for the products are those permitted under the OFAC general license, and that the sales and transactions with the Iranian distributor otherwise comply with the requirements of the OFAC regulations. The expected revenues and net profits associated with sales to the Iranian distributor are not expected to be material to our results of operations.

We do not believe that our activities to date, and do not expect that our activities in the future, will be subject to required disclosure under Section 13(r) of the Securities Exchange Act of 1934 (the "Exchange Act"), which, among other things, requires disclosure of transactions and activities knowingly entered into with the Government of Iran that do not benefit from an OFAC license and with certain designated parties. If, however, any activities in future periods are within the scope of the transactions and activities captured by Section 13(r) of the Exchange Act, we will make the required disclosures and notices.

New Accounting Pronouncements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign currency risk

Approximately 48% of our total 2017 consolidated net sales were to customers outside the United States. We have sales subsidiaries in a significant number of countries in Europe as well as Australia, Canada, China and Korea. In those countries in which we have a direct presence, our sales are denominated in the local currency amounting to approximately 33% of our total net sales in 2017. The remaining 15% of sales to customers outside the United States was on an export basis and transacted in United States dollars.

Because a significant portion of our operations consist of sales activities in foreign jurisdictions, our financial results may be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the markets in which we distribute products. During 2017, foreign currency exchange rates, including the effects of the hedging program, caused sales to increase by approximately $0.1 million and income before income taxes to decrease by approximately $0.9 million, compared to sales and income before income taxes in 2016.

We hedge forecasted intercompany sales denominated in foreign currencies through the use of forward contracts. We account for these forward contracts as cash flow hedges. To the extent these forward contracts meet hedge accounting

criteria, changes in their fair value are not included in current earnings but are included in accumulated other comprehensive loss. These changes in fair value will be recognized into earnings as a component of sales or cost of sales when the forecasted transaction occurs. The notional contract amounts for forward contracts outstanding at December 31, 2017 which have been accounted for as cash flow hedges totaled $126.0 million. Net realized gains (losses) recognized for forward contracts accounted for as cash flow hedges approximated -$0.7 million, $1.2 million and $10.4 million for the years ended December 31, 2017, 2016 and 2015, respectively. Net unrealized losses on forward contracts outstanding which have been accounted for as cash flow hedges and which have been included in other comprehensive income totaled $3.5 million at December 31, 2017. It is expected these unrealized losses will be recognized in the consolidated statement of comprehensive income in 2018 and 2019.

We also enter into forward contracts to exchange foreign currencies for United States dollars in order to hedge our currency transaction exposures on intercompany receivables denominated in foreign currencies. These forward contracts settle each month at month-end, at which time we enter into new forward contracts. We have not designated these forward contracts as hedges and have not applied hedge accounting to them. The notional contract amounts for forward contracts outstanding at December 31,

2017 which have not been designated as hedges totaled $30.4 million. Net realized gains (losses) recognized in connection with those forward contracts not accounted for as hedges approximated -$1.6 million, $0.0 million and $0.4 million for the years ended December 31, 2017, 2016 and 2015, respectively, offsetting gains (losses) on our intercompany receivables of $1.1 million, -$0.1 million and -$0.8 million for the years ended December 31, 2017, 2016 and 2015, respectively. These gains and losses have been recorded in selling and administrative expense in the consolidated statements of comprehensive income.

We record these forward foreign exchange contracts at fair value; the net fair value for forward foreign exchange contracts outstanding at December 31, 2017 was $5.7 million and is included in other current liabilities in the consolidated balance sheet.

Refer to Note 14 in the consolidated financial statements for further discussion.

Interest rate risk

At December 31, 2017, we had approximately $484.5 million of variable rate long-term debt outstanding under our senior credit agreement. Assuming no repayments, if market interest rates for similar borrowings averaged 1.0% more in 2018 than they did in 2017, interest expense would increase, and income before income taxes would decrease by $4.9 million. Comparatively, if market interest rates for similar borrowings average 1.0% less in 2018 than they did in 2017, our interest expense would decrease, and income before income taxes would increase by $4.9 million.

Item 8. Financial Statements and Supplementary Data

Our 2017 Financial Statements are included in this Form 10-K beginning on page 37 and incorporated by reference herein.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosures

There were no changes in or disagreement with accountants on accounting and financial disclosure.

Item 9A. 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) 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 under the Securities Exchange Act of 1934) occurred during the fourth quarter of the year ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm thereon are set forth in Part IV, Item 15 of the Annual Report on Form 10-K.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference to the sections captioned “Proposal One: Election of Directors”, “Directors, Executive Officers, Other Company Officers and Nominees for the Board of Directors”, “Section 16(a) Beneficial Ownership Reporting Compliance”, “Ethics Disclosure” and "Meetings of Board of Directors and Committees, Leadership Structure and Risk Oversight” in CONMED Corporation’s definitive Proxy Statement or other informational filing to be filed with the Securities and Exchange Commission on or about April 12, 2018.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the sections captioned “Compensation Discussion and Analysis”, “Compensation Committee Report on Executive Compensation”, “Summary Compensation Table”, “Grants of Plan-Based Awards”, “Outstanding Equity Awards at Fiscal Year-End”, “Option Exercises and Stock Vested”, “Pension Benefits”, “Non-Qualified Deferred Compensation”, “Potential Payments on Termination or Change-in-Control”, “Director Compensation,” “Pay Ratio Disclosure” and “Board of Directors Interlocks and Insider Participation; Certain Relationships and Related Transactions” in CONMED Corporation’s definitive Proxy Statement or other informational filing to be filed with the Securities and Exchange Commission on or about April 12, 2018.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated herein by reference to the section captioned “Security Ownership of Certain Beneficial Owners and Management” in CONMED Corporation’s definitive Proxy Statement or other informational filing to be filed with the Securities and Exchange Commission on or about April 12, 2018.

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

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,885,129	$ 42.75	921,095
Equity compensation plans not approved by security holders	—	—	—
Total	1,885,129	$ 42.75	921,095

The number of securities included in column (a) above consists of outstanding stock options, share appreciation rights ("SARs") and performance share units, however the weighted-average exercise price in column (b) is for stock options and SARs only.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the section captioned "Directors, Executive Officers and Nominees for the Board of Directors" and "Board of Directors Interlocks and Insider Participation; Certain Relationships and Related Transactions" in CONMED Corporation's definitive Proxy Statement or other informational filing to be filed with the Securities and Exchange Commission on or about April 12, 2018.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to the section captioned “Principal Accounting Fees and Services” in CONMED Corporation’s definitive Proxy Statement or other informational filing to be filed with the Securities and Exchange Commission on or about April 12, 2018.

PART IV

Item 15. Exhibits, Financial Statement Schedules

Index to Financial Statements

All other schedules have been omitted because they are not applicable, or the required information is shown in the financial statements or notes thereto.

(3) List of Exhibits

The exhibits listed on the accompanying Exhibit Index on page 34 below are filed as part of this Form 10-K.

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/ Curt R. Hartman
Curt R. Hartman
(President and Chief
Executive Officer)

Date:
February 26, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ MARK E. TRYNISKI Mark E. Tryniski	Chairman of the Board of Directors	February 26, 2018
/s/ CURT R. HARTMAN Curt R. Hartman	President, Chief Executive Officer and Director	February 26, 2018
/s/ TODD W. GARNER Todd W. Garner	Executive Vice President and Chief Financial Officer	February 26, 2018
/s/ TERENCE M. BERGE Terence M. Berge	Vice President-Corporate Controller	February 26, 2018
/s/ DAVID BRONSON David Bronson	Director	February 26, 2018
/s/ BRIAN P. CONCANNON Brian P. Concannon	Director	February 26, 2018
/s/ CHARLES M. FARKAS Charles M. Farkas	Director	February 26, 2018
/s/ MARTHA GOLDBERG ARONSON Martha Goldberg Aronson	Director	February 26, 2018
/s/ JO ANN GOLDEN Jo Ann Golden	Director	February 26, 2018
/s/ DIRK M. KUYPER Dirk M. Kuyper	Director	February 26, 2018
/s/ JEROME J. LANDE Jerome J. Lande	Director	February 26, 2018
/s/ JOHN L. WORKMAN John L. Workman	Director	February 26, 2018

Exhibit Index

Exhibit No.	Description
3.1	Amended and Restated By-Laws, as adopted by the Board of Directors on April 29, 2011 (Incorporated by reference to the Company's Current Report on Form 10-Q filed with the Securities and Exchange Commission on May 2, 2011).
3.2	1999 Amendment to Certificate of Incorporation and Restated Certificate of Incorporation of CONMED Corporation (Incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
4.1	See Exhibit 3.1.
4.2	See Exhibit 3.2.
4.3	Guarantee and Collateral Agreement, dated August 28, 2002, made by CONMED Corporation and certain of its subsidiaries in favor of JP Morgan Chase Bank (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
4.4	First Amendment to Guarantee and Collateral Agreement, dated June 30, 2003, made by CONMED Corporation and certain of its subsidiaries in favor of JP Morgan Chase Bank and the several banks and other financial institutions or entities from time to time parties thereto (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
4.5	Second Amendment to Guarantee and Collateral Agreement, dated April 13, 2006, made by CONMED Corporation and certain of its subsidiaries in favor of JP Morgan Chase Bank and the several banks and other financial institutions or entities from time to time parties thereto (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 19, 2006).
4.6	Third Amendment to Guarantee and Collateral Agreement, dated as of January 17, 2013, made by CONMED Corporation and certain of its subsidiaries in favor of JP Morgan Chase Bank (Incorporated by reference to Exhibit 4.6 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012).
4.7	Fourth Amendment to Guarantee and Collateral Agreement, dated as of January 4, 2016, made by CONMED Corporation and certain of its subsidiaries in favor of JP Morgan Chase Bank (Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 4, 2016).
10.1+	Employment Agreement between the Company and Curt R. Hartman, dated November 9, 2014 (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 10, 2014).
10.2+	Amended and Restated Employment Agreement, dated October 30, 2009, by and between CONMED Corporation and Joseph J. Corasanti, Esq. (Incorporated by reference to the Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).

10.3	-	Amended and Restated 1999 Long Term Incentive Plan (Incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 on November 3, 2009).

10.4	-	2002 Employee Stock Purchase Plan (Incorporated by reference to the Company's Definitive Proxy Statement for the 2002 Annual Meeting filed with the Securities and Exchange Commission on April 17, 2002).
10.5	-	Amendment to CONMED Corporation 2002 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.11 of the Company's Annual Report on Form 10-K for the year ended December 31, 2005).
10.6	-	2006 Stock Incentive Plan (Incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 on August 8, 2006).
10.7	-	Amended and Restated 2007 Non-Employee Director Equity Compensation Plan of CONMED Corporation (Incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 on August 3, 2010).
10.8	-	Amended and Restated Long Term Incentive Plan (Incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 on July 27, 2012).
10.9	-	Amended and Restated 2015 Long-Term Incentive Plan (Incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 on October 23, 2015).
10.10	-	Amended and Restated 2016 Non-Employee Director Equity Compensation Plan (Incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 on October 28, 2016).
10.11	-	Fifth Amended and Restated Credit Agreement, dated January 4, 2016, among CONMED Corporation, JP Morgan Chase Bank and the several banks and other financial institutions or entities from time to time parties thereto (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 4, 2016).
10.12	-	First Amendment, dated September 8, 2016, to the Fifth Amended and Restated Credit Agreement, dated January 4, 2016, among CONMED Corporation, JP Morgan Chase Bank and the several banks and other financial institutions or entities from time to time parties thereto (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on October 28, 2016).
10.13	-	Sports Medicine Joint Development and Distribution Agreement by and between Musculoskeletal Transplant Foundation, Inc. and CONMED Corporation dated as of January 3, 2012 (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated January 3, 2012).
10.14+	-	Employment Agreement between the Company and Patrick Beyer, dated December 9, 2014 (Incorporated by reference to Exhibit 10.21 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014).
10.15+	-	Separation Agreement, by and between CONMED Corporation and Joseph J. Corasanti, dated July 22, 2014. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2014).
10.16+	-	Retirement Agreement, by and between CONMED Corporation and Robert D. Shallish, Jr., dated December 9, 2014. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 9, 2014).

10.17	-	Agreement and Plan of Merger, dated November 15, 2015, by and among CONMED Corporation, Nemo Acquisition Sub, Inc., SurgiQuest, Inc. and Shareholder Representative Services LLC (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 16, 2015).

10.18+	-	Separation Agreement, by and between CONMED Corporation and Luke A. Pomilio, dated November 1, 2017. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 2, 2017).
10.19+	-	Offer Letter from CONMED Corporation to Todd W. Garner dated January 2, 2018. (Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 2, 2018).
14	-	Code of Ethics. The CONMED code of ethics may be accessed via the Company's website at http://www.conmed.com/en/about-us/investors/investor-relations
21*	-	Subsidiaries of the Registrant.
23*	-	Consent of Independent Registered Public Accounting Firm.
31.1*	-	Certification of Curt R. Hartman pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	-	Certification of Todd W. Garner. pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	-	Certifications of Curt R. Hartman and Todd W. Garner pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	-	The following materials from CONMED Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Comprehensive Income for the three years ended December 31, 2017, (ii) Consolidated Balance Sheets at December 31, 2017 and 2016, (iii) Consolidated Statements of Shareholders' Equity for the three years ended December 31, 2017 (iv) Consolidated Statements of Cash Flows for the three years ended December 31, 2017, (v) Notes to the Consolidated Financial Statements for the year ended December 31, 2017 and (vi) Schedule II - Valuation and Qualifying Accounts. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

* Filed herewith

\+ Management contract or compensatory plan or arrangement

MANAGEMENT'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING

The management of CONMED Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management assessed the effectiveness of CONMED's internal control over financial reporting as of December 31, 2017. In making its assessment, management utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "Internal Control-Integrated Framework", released in 2013. Management has concluded that based on its assessment, CONMED's internal control over financial reporting was effective as of December 31, 2017. The effectiveness of the Company's internal control over financial reporting as of December 31, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

/s/ Curt R. Hartman
Curt R. Hartman
President and
Chief Executive Officer

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of CONMED Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of CONMED Corporation and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017 based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide

a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ PricewaterhouseCoopers LLP
Rochester, New York
February 26, 2018

We have served as the Company's auditor since 1982.

CONMED CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016
(In thousands except share and per share amounts)

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$32,622	$27,428
Accounts receivable, less allowance for doubtful accounts of $2,137 in 2017 and $2,031 in 2016	167,037	148,244
Inventories	141,436	135,869
Prepaid expenses and other current assets	15,688	18,971
Total current assets	356,783	330,512
Property, plant and equipment, net	116,229	122,029
Deferred income taxes	4,721	3,712
Goodwill	401,954	397,664
Other intangible assets, net	414,940	419,549
Other assets	63,334	55,517
Total assets	$1,357,961	$1,328,983
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$14,699	$10,202
Accounts payable	42,044	41,647
Accrued compensation and benefits	34,258	32,036
Other current liabilities	59,002	30,067
Total current liabilities	150,003	113,952
Long-term debt	471,744	488,288
Deferred income taxes	77,668	119,143
Other long-term liabilities	27,114	27,024
Total liabilities	726,529	748,407
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock, par value $.01 per share; authorized 500,000 shares, none issued or outstanding	—	—
Common stock, par value $.01 per share; 100,000,000 authorized; 31,299,194 issued in 2017 and 2016, respectively	313	313
Paid-in capital	333,795	329,276
Retained earnings	440,085	406,932
Accumulated other comprehensive loss	(49,078)	(58,526)
Less: Treasury stock, at cost; 3,338,015 and 3,471,121 shares in 2017 and 2016, respectively	(93,683)	(97,419)
Total shareholders' equity	631,432	580,576
Total liabilities and shareholders' equity	$1,357,961	$1,328,983

The accompanying notes are an integral part of the consolidated financial statements.

CONMED CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2017, 2016 and 2015
(In thousands except per share amounts)

	2017	2016	2015
Net sales	$796,392	$763,520	$719,168
Cost of sales	365,351	355,190	337,466
Gross profit	431,041	408,330	381,702
Selling and administrative expense	351,799	338,400	303,091
Research and development expense	32,307	32,254	27,436
Operating expenses	384,106	370,654	330,527
Income from operations	46,935	37,676	51,175
Other expense	—	2,942	—
Interest expense	18,203	15,359	6,031
Income before income taxes	28,732	19,375	45,144
Provision (benefit) for income taxes	(26,755)	4,711	14,646
Net income	$55,487	$14,664	$30,498
Per share data:			
Basic	$1.99	$0.53	$1.10
Diluted	$1.97	$0.52	$1.09
Dividends per share of common stock	$0.80	$0.80	$0.80
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustments	$13,879	$(4,501)	$(16,775)
Pension liability	1,023	(755)	7,578
Cash flow hedging gain (loss)	(8,051)	547	(3,291)
Other comprehensive income, before tax	62,338	9,955	18,010
Provision (benefit) for income taxes related to items of other comprehensive income	(2,597)	(77)	1,584
Comprehensive income	$64,935	$10,032	$16,426

The accompanying notes are an integral part of the consolidated financial statements.

CONMED CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2017, 2016 and 2015
(In thousands)

	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Shareholders' Equity
	Shares	Amount					
Balance at December 31, 2014	31,299	$ 313	$319,752	$406,145	$ (39,822)	$(105,090)	$ 581,298
Common stock issued under employee plans			(6,297)			4,323	(1,974)
Tax benefit arising from common stock issued under employee plans			3,961				3,961
Stock-based compensation			7,499				7,499
Dividends on common stock				(22,137)			(22,137)
Comprehensive income (loss):							
Foreign currency translation adjustments					(16,775)		
Pension liability (net of income tax expense $2,800)					4,778		
Cash flow hedging loss (net of income tax benefit of $1,216)					(2,075)		
Net income				30,498			
Total comprehensive income							16,426
Balance at December 31, 2015	31,299	$ 313	$324,915	$414,506	$ (53,894)	$(100,767)	$ 585,073
Common stock issued under employee plans			(4,217)			3,348	(869)
Tax benefit arising from common stock issued under employee plans			203				203
Stock-based compensation			8,375				8,375
Dividends on common stock				(22,238)			(22,238)
Comprehensive income (loss):							

Foreign currency translation adjustments					(4,501)		
Pension liability (net of income tax benefit of $279)					(476)		
Cash flow hedging gain (net of income tax expense of $202)					345		
Net income				14,664			
Total comprehensive income							10,032
Balance at December 31, 2016	31,299	$ 313	$329,276	$406,932	$ (58,526)	$(97,419)	$ 580,576

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	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Shareholders' Equity
Common stock issued under employee plans			(3,953)			3,736	(217)
Stock-based compensation			8,472				8,472
Dividends on common stock				(22,334)			(22,334)
Comprehensive income (loss):							
Foreign currency translation adjustments					13,879		
Pension liability (net of income tax expense of $378)					645		
Cash flow hedging loss (net of income tax benefit of $2,975)					(5,076)		
Net income				55,487			
Total comprehensive income							64,935
Balance at December 31, 2017	31,299	$ 313	$333,795	$440,085	$ (49,078)	$(93,683)	$ 631,432

The accompanying notes are an integral part of the consolidated financial statements.

CONMED CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017, 2016 and 2015
(In thousands)

	2017	2016	2015
Cash flows from operating activities:			
Net income	$55,487	$14,664	$30,498
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	20,079	20,479	18,704
Amortization	38,469	34,830	25,175
Stock-based compensation	8,472	8,375	7,499
Deferred income taxes	(40,021)	(2,871)	2,251
Gain on sale of facility	—	(1,890)	—
Income tax benefit of stock option exercises	—	203	3,961
Excess tax benefit from stock option exercises	—	(483)	(4,081)
Loss on early extinguishment of debt	—	254	—
Increase (decrease) in cash flows from changes in assets and liabilities, net of acquired assets:			
Accounts receivable	(13,631)	(6,380)	(9,643)
Inventories	(3,926)	3,103	(18,581)
Accounts payable	(286)	2,094	11,508
Income taxes	4,288	(200)	(1,357)
Accrued compensation and benefits	336	(2,598)	(3,964)
Other assets	(22,401)	(23,234)	(12,005)
Other liabilities	18,700	(6,465)	952
	10,079	25,217	20,419
Net cash provided by operating activities	65,566	39,881	50,917
Cash flows from investing activities:			
Payments related to business and asset acquisitions, net of cash acquired	(16,212)	(256,450)	(9,353)
Proceeds from sale of a facility	—	5,178	—
Purchases of property, plant and equipment	(12,842)	(14,753)	(15,009)
Net cash used in investing activities	(29,054)	(266,025)	(24,362)
Cash flows from financing activities:			
Excess tax benefit from stock option exercises	—	483	4,081
Payments on term loan	(8,750)	(8,750)	—
Proceeds from term loan	—	175,000	—
Payments on revolving line of credit	(157,000)	(162,347)	(112,000)
Proceeds from revolving line of credit	155,000	225,000	142,680
Payments related to distribution agreement	—	(16,667)	(16,667)
Payments on mortgage notes	(1,452)	(1,339)	(1,234)
Payments related to debt issuance costs	—	(5,556)	(1,485)
Dividends paid on common stock	(22,307)	(22,213)	(22,105)
Other, net	(372)	(1,068)	(5,892)
Net cash provided by (used in) financing activities	(34,881)	182,543	(12,622)
Effect of exchange rate changes on cash and cash equivalents	3,563	(1,475)	(7,761)

Net increase (decrease) in cash and cash equivalents	5,194	(45,076)	6,172
Cash and cash equivalents at beginning of year	27,428	72,504	66,332
Cash and cash equivalents at end of year	$32,622	$27,428	$72,504

	2017	2016	2015
Non-cash investing activities:			
Contractual obligations for acquisition of a business	$—	$—	$440
Non-cash financing activities:			
Dividends payable	$5,592	$5,566	$5,542
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$16,157	$13,758	$5,434
Income taxes	8,869	9,588	10,261

The accompanying notes are an integral part of the consolidated financial statements.

CONMED CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands except per share amounts)

Note 1 — Operations and Significant Accounting Policies

Organization and operations

CONMED Corporation ("CONMED", the "Company", "we" or "us") is a medical technology company that provides surgical devices and equipment for minimally invasive procedures. The Company's products are used by surgeons and physicians in a variety of specialties including orthopedics, general surgery, gynecology, neurosurgery and gastroenterology.

Principles of consolidation

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

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments which affect the reported amounts of assets, liabilities, related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Cash and cash equivalents

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

Inventories

Inventories are valued at the lower of cost and net realizable value determined on the FIFO (first-in, first-out) cost method.

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

Property, plant and equipment

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

Building and improvements	12 to 40 years
Leasehold improvements	Shorter of life of asset or life of lease
Machinery and equipment	2 to 15 years

Goodwill and other intangible assets

We have a history of growth through acquisitions. Assets and liabilities of acquired businesses are recorded at their estimated fair values as of the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Factors that contribute to the recognition of goodwill include synergies that are specific to our business and are expected to increase net sales and profits; acquisition of a talented workforce; cost savings opportunities; the strategic benefit of expanding our presence in core and adjacent markets; and diversifying our product portfolio. Customer and distributor relationships, trademarks, tradenames, developed technology, patents and other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. Promotional, marketing and distribution rights represent intangible assets created under our Sports Medicine Joint Development and Distribution Agreement (the "JDDA") with Musculoskeletal Transplant Foundation (“MTF”).

Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to at least annual impairment testing. It is our policy to perform our annual impairment testing in the fourth quarter. The identification and measurement of goodwill impairment involves the estimation of the fair value of our business. Estimates of fair value are based on the best information available as of the date of the assessment. We completed our goodwill impairment testing during the fourth quarter of 2017. We performed our impairment test utilizing the market capitalization approach to determine whether the fair value of a reporting unit is less than its carrying amount. Based upon our assessment, the fair value continues to exceed carrying value.

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

For all other indefinite-lived intangible assets, we perform a qualitative impairment test. Based upon this assessment, we have determined that our indefinite-lived intangible assets are not impaired.

Other long-lived assets

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

The Company maintains field inventory consisting of capital equipment for customer demonstration and evaluation purposes. Field inventory is generally not sold to customers but rather continues to be used over its useful life for demonstration, evaluation and loaner purposes. An annual wear and tear provision has been recorded on field inventory. The net book value of such equipment at December 31, 2017 and 2016 is $52.4 million and $44.8 million, respectively.

Translation of foreign currency financial statements

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

Foreign exchange and hedging activity

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

We also enter into forward contracts to exchange foreign currencies for United States dollars in order to hedge our currency transaction exposures on intercompany receivables denominated in foreign currencies. These forward

contracts settle each month at month-end, at which time we enter into new forward contracts. We have not designated these forward contracts as hedges and have not applied hedge accounting to them. We record these forward contracts at fair value with resulting gains and losses included in selling and administrative expense in the consolidated statements of comprehensive income.

Income taxes

Deferred income tax assets and liabilities are based on the difference between the financial statement and tax basis of assets and liabilities and operating loss and tax credit carryforwards as measured by the enacted tax rates that are anticipated to be in effect in the respective jurisdictions when these differences reverse. The deferred income tax provision generally represents the net change in the assets and liabilities for deferred income taxes. A valuation allowance is established when it is necessary to reduce deferred income tax assets to amounts for which realization is likely. In assessing the need for a valuation allowance, we

estimate future taxable income, considering the feasibility of ongoing tax planning strategies and the realizability of tax loss carryforwards. Valuation allowances related to deferred tax assets may be impacted by changes to tax laws, changes to statutory tax rates, reversal of temporary differences and ongoing and future taxable income levels.

Deferred income taxes are not provided on the unremitted earnings of subsidiaries outside of the United States when it is expected that these earnings are permanently reinvested. Such earnings may become taxable upon a repatriation of assets from a subsidiary or the sale or liquidation of a subsidiary. Deferred income taxes are provided when the Company no longer considers subsidiary earnings to be permanently invested, such as in situations where the Company's subsidiaries plan to make future dividend distributions. In accordance with the Tax Cuts and Jobs Act, estimated provisional federal and state tax liabilities have been accrued on cumulative foreign subsidiary earnings at December 31, 2017. In addition, we have accrued an estimated provisional liability for foreign withholding taxes related to the amount of unremitted earnings at December 31, 2017 as they are not considered permanently reinvested. However, additional time is required to complete the evaluation of our accounting for deferred taxes on permanently reinvested earnings. Adjustments will be completed within the measurement period prescribed by Staff Accounting Bulletin No. 118.

Revenue recognition

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

- Title and the risks and rewards of ownership are transferred to the customer when product is shipped under our stated shipping terms. Payment by the customer is due under fixed payment terms and collectability is reasonably assured.

- We place certain of our capital equipment with customers on a loaned basis in return for commitments to purchase related single-use products over time periods generally ranging from one to three years. In these circumstances, no revenue is recognized upon capital equipment shipment as the equipment is loaned and subject to return if certain minimum single-use purchases are not met. Revenue is recognized upon the sale and shipment of the related single-use products. The cost of the equipment is amortized over its estimated useful life.

- We recognize revenues related to the promotion and marketing of sports medicine allograft tissue in accordance with the contractual terms of our agreement with Musculoskeletal Transplant Foundation ("MTF") on a net basis as our role is limited to that of an agent earning a commission or fee. MTF records revenue when the tissue is shipped to the customer. Our services are completed at this time and net revenues for the "Service Fee" for our promotional and marketing efforts are then recognized based on a percentage of the net amounts billed by MTF to its customers. The timing of revenue recognition is determined through review of the net billings made by MTF each month. Our net commission Service Fee is based on the contractual terms of our agreement and is currently 50%. This percentage can vary over the term of the agreement but is contractually determinable. Our Service Fee revenues are recorded net of amortization of the acquired assets, which are being amortized over the expected useful life of 25 years.

- Product returns are only accepted at the discretion of the Company and in accordance with our "Returned Goods Policy". Historically, the level of product returns has not been significant. We accrue for sales returns, rebates and allowances based upon an analysis of historical customer returns and credits, rebates, discounts and current market conditions.

- Our terms of sale to customers generally do not include any obligations to perform future services. Limited warranties are provided for capital equipment sales and provisions for warranty are provided at the time of product sale based upon an analysis of historical data.

- Amounts billed to customers related to shipping and handling have been included in net sales. Shipping and handling costs included in selling and administrative expense were $13.1 million, $13.4 million and $12.6 million for 2017, 2016 and 2015, respectively.

- We sell to a diversified base of customers around the world and, therefore, believe there is no material concentration of credit risk.

- We assess the risk of loss on accounts receivable and adjust the allowance for doubtful accounts based on this risk assessment. Historically, losses on accounts receivable have not been material. Management believes that the allowance

for doubtful accounts of $2.1 million at December 31, 2017 is adequate to provide for probable losses resulting from accounts receivable.

Earnings per share

Basic earnings per share (“basic EPS”) is computed by dividing net income by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share (“diluted EPS”) gives effect to all dilutive potential shares outstanding resulting from employee stock options, restricted stock units, performance share units and stock appreciation rights during the period. The following table sets forth the computation of basic and diluted earnings per share at December 31, 2017, 2016 and 2015, respectively:

	2017	2016	2015
Net income	$55,487	$14,664	$30,498
Basic-weighted average shares outstanding	27,939	27,804	27,653
Effect of dilutive potential securities	232	160	205
Diluted-weighted average shares outstanding	28,171	27,964	27,858
Net income (per share)			
Basic	$1.99	$0.53	$1.10
Diluted	1.97	0.52	1.09

The shares used in the calculation of diluted EPS exclude options and stock appreciation rights ("SARs") to purchase shares where the exercise price was greater than the average market price of common shares for the year and the effect of the inclusion would be anti-dilutive. Such shares aggregated approximately 1.2 million, 1.4 million and 0.5 million at December 31, 2017, 2016 and 2015, respectively.

Stock-based compensation

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

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

Accumulated other comprehensive loss

Accumulated other comprehensive loss consists of the following:

	Cash Flow Hedging Gain (Loss)	Pension Liability	Cumulative Translation Adjustments	Accumulated Other Comprehensive Loss
Balance, December 31, 2014	$3,276	$(30,760)	$(12,338)	$(39,822)
Other comprehensive income (loss) before reclassifications, net of tax	4,482	2,739	(16,775)	(9,554)
Amounts reclassified from accumulated other comprehensive income (loss) before tax[a]	(10,399)	3,233	—	(7,166)
Income tax provision (benefit)	3,842	(1,194)	—	2,648
Net current-period other comprehensive income (loss)	(2,075)	4,778	(16,775)	(14,072)
Balance, December 31, 2015	$1,201	$(25,982)	$(29,113)	$(53,894)
Other comprehensive income (loss) before reclassifications, net of tax	1,088	(2,229)	(4,501)	(5,642)
Amounts reclassified from accumulated other comprehensive income (loss) before tax[a]	(1,179)	2,780	—	1,601
Income tax provision (benefit)	436	(1,027)	—	(591)
Net current-period other comprehensive income (loss)	345	(476)	(4,501)	(4,632)
Balance, December 31, 2016	$1,546	$(26,458)	$(33,614)	$(58,526)
Other comprehensive income (loss) before reclassifications, net of tax	(5,529)	(1,142)	13,879	7,208
Amounts reclassified from accumulated other comprehensive income (loss) before tax[a]	718	2,835	—	3,553
Income tax provision (benefit)	(265)	(1,048)	—	(1,313)
Net current-period other comprehensive income (loss)	(5,076)	645	13,879	9,448
Balance, December 31, 2017	$(3,530)	$(25,813)	$(19,735)	$(49,078)

(a) The cash flow hedging gain (loss) and pension liability accumulated other comprehensive income components are included in sales or cost of sales and as a component of net periodic pension cost, respectively. Refer to Note 14 and Note 10, respectively, for further details.

Note 2 – Business Acquisition

On January 4, 2016, we acquired all of the stock of SurgiQuest, Inc. ("SurgiQuest") for $257.7 million in cash (based on an aggregate purchase price of $265 million as adjusted pursuant to the merger agreement governing the acquisition). SurgiQuest developed, manufactured and marketed the AirSeal® System, the first integrated access management technology for use in laparoscopic and robotic procedures. This proprietary and differentiated access

system is complementary to our current general surgery offering. The acquisition was funded through a combination of cash on hand and long-term borrowings.

The following table summarizes the fair values of the assets acquired and liabilities assumed as a result of the SurgiQuest acquisition.

Cash	$1,305
Accounts receivable	10,032
Inventory	4,267
Other current assets	728
Current assets acquired	16,332
Property, plant & equipment	3,332
Goodwill	136,687
Customer and distributor relationships	76,420
Developed technology	49,600
Trademarks and tradenames	4,780
Other non-current assets	1,553
Total assets acquired	$288,704
Accounts payable	$5,012
Other current liabilities	6,004
Current liabilities assumed	11,016
Deferred income taxes	19,505
Other long-term liabilities	454
Total liabilities assumed	30,975
Net assets acquired	$257,729

The unaudited pro forma information for the years ended December 31, 2016 and 2015, assuming SurgiQuest occurred as of January 1, 2015 are presented below. This information has been prepared for comparative purposes only and does not purport to be indicative of the results of operations which actually would have resulted had the SurgiQuest acquisition occurred on the dates indicated, or which may result in the future.

	December 31,	
	2016	2015
Net sales	$763,520	$768,726
Net income	29,153	(9,673)

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

Acquisition related costs included in the determination of pro forma net income for the year ended December 31, 2015 totaled $20.6 million. Such amounts are excluded from the determination of pro forma net income for the year ended December 31, 2016.

Net sales associated with SurgiQuest of $68.4 million have been recorded in the consolidated statement of comprehensive income for the year ended December 31, 2016. It is impracticable to determine the earnings recorded in the consolidated statement of comprehensive income associated with the SurgiQuest acquisition for the year ended December 31, 2016 as these amounts are not separately measured.

Note 3 — Inventories

Inventories consist of the following at December 31:

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	2017	2016
Raw materials	$41,844	$42,821
Work in process	14,666	13,315
Finished goods	84,926	79,733
	$141,436	$135,869

Note 4 — Property, Plant and Equipment

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

	2017	2016
Land	$4,027	$4,027
Building and improvements	91,766	90,780
Machinery and equipment	219,675	205,674
Construction in progress	7,837	7,229
	323,305	307,710
Less: Accumulated depreciation	(207,076)	(185,681)
	$116,229	$122,029

We lease various manufacturing facilities, office facilities and equipment under operating and capital leases. Leasehold improvements related to these facilities are included in building and improvements above. Rental expense on operating leases was approximately $6,507, $6,043 and $5,464 for the years ended December 31, 2017, 2016 and 2015, respectively. During 2017, we entered into capital lease obligations of $762 in connection with the purchase of computer equipment. The aggregate future minimum lease commitments for leases at December 31, 2017 are as follows:

	Operating Leases	Capital Leases
2018	$ 6,832	$ 246
2019	6,117	246
2020	3,448	116
2021	2,239	—
2022	2,099	—
Thereafter	3,613	—

Note 5 – Goodwill and Other Intangible Assets

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

	2017	2016
Balance as of January 1,	$397,664	$260,651
Goodwill resulting from business acquisitions	2,209	136,687
Foreign currency translation	2,081	326
Balance as of December 31,	$401,954	$397,664

During 2017, we entered into a business acquisition for which we recorded $2.2 million to goodwill. During 2016, the Company acquired SurgiQuest, Inc. (SurgiQuest) as further described in Note 2. Goodwill resulting from the

acquisition amounted to $136.7 million and acquired amortizing intangible assets including customer and distributor relationships, developed technology and trademarks and tradenames amounted to $130.8 million.

Total accumulated goodwill impairment losses aggregated $106,991 at December 31, 2017 and 2016, respectively.

Other intangible assets consist of the following:

	December 31, 2017			December 31, 2016	
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:					
Customer and distributor relationships	29	$214,685	$(86,137)	$213,259	$(75,164)
Promotional, marketing and distribution rights	25	149,376	(36,000)	149,376	(30,000)
Patents and other intangible assets	14	69,668	(42,127)	67,509	(40,335)
Developed technology	17	62,283	(3,352)	49,600	(1,240)
Unamortized intangible assets:					
Trademarks and tradenames		86,544	—	86,544	—
	25	$582,556	$(167,616)	$566,288	$(146,739)

On January 3, 2012, the Company entered into the JDDA with MTF to obtain MTF's worldwide promotion rights with respect to allograft tissues within the field of sports medicine and related products. The initial consideration from the Company included a $63.0 million up-front payment for the rights and certain assets, with an additional $84.0 million contingently payable over a four year period depending on MTF meeting supply targets for tissue. On January 6, 2016 and January 5, 2015, we paid the final two $16.7 million additional consideration installments.

Amortization expense related to intangible assets which are subject to amortization totaled $21.3 million, $20.0 million and $12.6 million for the years ending December 31, 2017, 2016 and 2015, respectively, and is included as a reduction of revenue (for amortization related to our promotional, marketing and distribution rights) and in selling and administrative expense (for all other intangible assets) in the consolidated statements of comprehensive income. Included in developed technology is $12.7 million acquired during the third quarter of 2017 with a weighted average useful life of 15 years. Included in patents and other intangible assets at December 31, 2017 is an in-process research and development asset that is not currently amortized.

The estimated amortization expense related to intangible assets at December 31, 2017 and for each of the five succeeding years is as follows:

	Amortization included in expense	Amortization recorded as a reduction of revenue	Total
2018	17,117	6,000	$23,117
2019	16,825	6,000	$22,825
2020	16,838	6,000	$22,838

2021	15,730	6,000	$21,730
2022	14,413	6,000	$20,413

Note 6 — Long Term Debt

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

	2017	2016
Revolving line of credit	$327,000	$329,000
Term loan, net of deferred debt issuance costs of $467 and $622 in 2017 and 2016, respectively	157,033	165,628
Mortgage notes	2,410	3,862
Total debt	486,443	498,490
Less: Current portion	14,699	10,202
Total long-term debt	$471,744	$488,288

On January 4, 2016, we entered into a fifth amended and restated senior credit agreement consisting of: (a) a $175.0 million term loan facility and (b) a $525.0 million revolving credit facility both expiring on January 4, 2021. 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 and to finance the acquisition of SurgiQuest. Interest rates are at LIBOR plus 2.00% (3.57% at December 31, 2017). For those borrowings where we elect to use the alternative base rate, the base rate will be the greater of the Prime Rate, the Federal Funds Rate plus 0.50% or the one-month Eurocurrency Rate Plus 1.00%.

In conjunction with this agreement, we incurred charges included in other expense in the 2016 statement of comprehensive income related to commitment fees paid to certain of our lenders, which provided a financing commitment for the SurgiQuest acquisition totaling $2.7 million and recorded a loss on the early extinguishment of debt of $0.3 million.

There were $157.5 million in borrowings outstanding on the term loan as of December 31, 2017. There were $327.0 million in borrowings outstanding under the revolving credit facility as of December 31, 2017. Our available borrowings on the revolving credit facility at December 31, 2017 were $194.9 million with approximately $3.1 million of the facility set aside for outstanding letters of credit.

The fifth amended and restated senior credit agreement is collateralized by substantially all of our personal property and assets. The fifth 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 December 31, 2017. We are also required, under certain circumstances, to make mandatory prepayments from net cash proceeds from any issuance of equity and asset sales.

We have a mortgage note outstanding in connection with the Largo, Florida property and facilities bearing interest at 8.25% per annum with semiannual payments of principal and interest through June 2019. The principal balance outstanding on the mortgage note aggregated $2.4 million at December 31, 2017. The mortgage note is collateralized by the Largo, Florida property and facilities.

The scheduled maturities of long-term debt outstanding at December 31, 2017 are as follows:

2018	$14,699
2019	18,336
2020	17,500
2021	436,375
2022	—
Thereafter	—

Note 7 — Income Taxes

The provision (benefit) for income taxes for the years ended December 31, 2017, 2016 and 2015 consists of the following:

	2017	2016	2015
Current tax expense:			
Federal	$1,744	$312	$4,208
State	2,101	159	1,238
Foreign	9,421	7,111	6,949
	13,266	7,582	12,395
Deferred income tax expense (benefit)	(40,021)	(2,871)	2,251
Provision (benefit) for income taxes	$(26,755)	$4,711	$14,646

A reconciliation between income taxes computed at the statutory federal rate and the provision (benefit) for income taxes for the years ended December 31, 2017, 2016 and 2015 follows:

	2017	2016	2015
Tax provision at statutory rate based on income before income taxes	35.0 %	35.0 %	35.0 %
Tax reform	(111.0)	—	—
Consolidated group restructuring	(7.4)	—	—
Foreign income taxes	(5.3)	(6.8)	(3.6)
Federal research credit	(2.8)	(5.6)	(2.0)
Settlement of taxing authority examinations	(2.1)	(3.5)	(0.6)
Stock-based compensation	(2.1)	—	—
European permanent deduction	(0.5)	(3.4)	(2.1)
Non deductible/non-taxable items	(0.5)	7.2	1.8
State income taxes, net of federal tax benefit	2.8	1.7	3.2
Impact of repatriation of foreign earnings	—	—	2.5
Other, net	0.8	(0.3)	(1.8)
	(93.1)%	24.3 %	32.4 %

The 2017 Tax Cuts and Jobs Act ("Tax Reform") was enacted on December 22, 2017. The Tax Reform includes a number of changes in existing tax law impacting businesses, including a one-time deemed repatriation of cumulative undistributed foreign earnings and a permanent reduction in the U.S. federal statutory rate from 35% to 21%, effective on January 1, 2018. Under U.S. GAAP, changes in tax rates and tax law are accounted for in the period of enactment and deferred tax assets and liabilities are measured at the enacted tax rate. The rate reconciliation includes the Company’s assessment of the accounting under the Tax Reform which is preliminary and is based on information that was available to management at the time the consolidated financial statements were prepared. Estimated provisional amounts were recorded for the deemed repatriation toll charge implemented by the Tax Reform, related foreign tax credits, deferred tax revaluation amounts and deferred tax liabilities on unremitted earnings. Accordingly, the Company has determined a preliminary $31.9 million of tax benefit related to Tax Reform. This initial assessment is

subject to adjustment in future periods for factors including the completion of federal and state tax returns for 2017 and finalization of gross deferred tax differences, future interpretive guidance expected to be issued by U.S. Treasury, future interpretive guidance issued by states regarding conformity with the Internal Revenue Code provisions as of December 31, 2017, ongoing IRS examinations and the additional time required to refine calculations. Further, additional time is required to complete the accounting

for deferred taxes on permanently reinvested earnings and valuation allowance assessments. Adjustments will be completed within the measurement period prescribed by Staff Accounting Bulletin No. 118.

The tax effects of the significant temporary differences which comprise the deferred income tax assets and liabilities at December 31, 2017 and 2016 are as follows:

	2017	2016
Assets:		
Inventory	$2,420	$3,769
Net operating losses	11,091	34,669
Capitalized research and development	8,557	6,257
Deferred compensation	1,749	2,544
Accounts receivable	1,855	3,186
Compensation and benefits	4,138	6,645
Accrued pension	2,695	4,530
Research and development credit	8,957	8,164
Other	9,342	2,001
Foreign tax credit	—	1,112
Less: valuation allowances	(570)	(441)
	50,234	72,436
Liabilities:		
Goodwill and intangible assets	102,099	168,509
Depreciation	3,333	9,099
State taxes	11,709	10,123
Unremitted foreign earnings	6,000	—
Contingent interest	40	136
	123,181	187,867
Net liability	$(72,947)	$(115,431)

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

	2017	2016	2015
U.S. income (loss)	$1,492	$(6,128)	$18,119
Foreign income	27,240	25,503	27,025
Total income	$28,732	$19,375	$45,144

As of December 31, 2017, the amount of federal net operating loss carryforward was $50.1 million and begins to expire in 2026. As of December 31, 2017, the amount of federal research credit carryforward available was $9.0 million. These credits begin to expire in 2027.

During the fourth quarter of 2015, the Company repatriated $9.3 million of 2015 foreign earnings and recorded a tax charge of $1.1 million. The repatriated earnings represented a portion of the 2015 earnings of certain foreign subsidiaries and affiliates and thus were not previously permanently reinvested. There had been no change in our longer term international plans as our intent to indefinitely reinvest the remaining foreign earnings accumulated through the year ended December 31, 2016 had not changed.

In accordance with Tax Reform, estimated provisional federal and state tax liabilities have been accrued on cumulative foreign subsidiary earnings at December 31, 2017. In addition, we have accrued an estimated provisional

liability for foreign withholding taxes related to the amount of unremitted earnings at December 31, 2017 as they are not considered permanently reinvested. However, as previously noted, additional time is required to complete the accounting for deferred taxes on permanently

reinvested earnings. Adjustments will be completed within the measurement period prescribed by Staff Accounting Bulletin No. 118.

The Company is subject to taxation in the United States and various states and foreign jurisdictions. Taxing authority examinations can involve complex issues and may require an extended period of time to resolve. Our federal income tax returns have been examined by the Internal Revenue Service ("IRS") for calendar years ending through 2016.

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

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

	2017	2016	2015
Balance as of January 1,	$1,839	$616	$581
Increases (decreases) for positions taken in prior periods	(246)	—	100
Increases for positions taken in current periods	1,957	1,584	—
Decreases in unrecorded tax positions related to settlement with the taxing authorities	(607)	(361)	—
Decreases in unrecorded tax positions related to lapse of statute of limitations	—	—	(65)
Balance as of December 31,	$2,943	$1,839	$616

If the total unrecognized tax benefits of $2.9 million at December 31, 2017 were recognized, it would reduce our annual effective tax rate. The amount of interest accrued in 2015, 2016 and 2017 related to these unrecognized tax benefits was not material and is included in the provision (benefit) for income taxes in the consolidated statements of comprehensive income.

Note 8 – Shareholders' Equity

On February 29, 2012, the Board of Directors adopted a cash dividend policy and declared an initial quarterly dividend of $0.15 per share. On October 28, 2013, the Board of Directors increased the quarterly dividend to $0.20 per share. The fourth quarter dividend for 2017 was paid on January 5, 2018 to shareholders of record as of December 15, 2017. The total dividend payable was $5.6 million at both December 31, 2017 and 2016, and is included in other current liabilities in the consolidated balance sheet.

Our shareholders have authorized 500,000 shares of preferred stock, par value $.01 per share, which may be issued in one or more series by the Board of Directors without further action by the shareholders. As of December 31, 2017 and 2016, no preferred stock had been issued.

Our Board of Directors has authorized a $200.0 million share repurchase program. Through December 31, 2017, 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. During 2017, 2016, and 2015 we did not repurchase any shares.

We have reserved 8.9 million shares of common stock for issuance to employees and directors under three shareholder approved share-based compensation plans (the "Plans") of which approximately 0.9 million shares remain available for grant at December 31, 2017. The exercise price on all outstanding stock options and stock appreciation rights (“SARs”) is equal to the quoted fair market value of the stock at the date of grant. Restricted stock units (“RSUs”) and performance stock units (“PSUs”) are valued at the market value of the underlying stock on the date of grant. Stock options, SARs, RSUs and PSUs are non-transferable other than on death and generally become exercisable over a five year period from date of grant. Stock options and

SARs expire ten years from date of grant. SARs are only settled in shares of the Company's stock. The issuance of shares pursuant to the exercise of stock options and SARs and vesting of RSUs and PSUs are from the Company's treasury stock.

Total pre-tax stock-based compensation expense recognized in the consolidated statements of comprehensive income was $8.5 million, $8.4 million and $7.5 million for the years ended December 31, 2017, 2016 and 2015, respectively. These amounts are included in selling and administrative expenses, and in 2016 and 2015, $0.7 million and $1.0 million, respectively, of the total relates to acceleration of awards associated with the Company's restructuring as further described in Note 12. Tax related benefits of $2.0 million, $3.1 million and $2.7 million were also recognized for the years ended December 31, 2017, 2016 and 2015, respectively. Cash received from the exercise of stock options was $1.0 million, $0.0 million and $0.2 million for the years ended December 31, 2017, 2016 and 2015, respectively, and is reflected in cash flows from financing activities in the consolidated statements of cash flows.

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options and SARs at the date of grant. Use of a valuation model requires management to make certain assumptions with respect to select model inputs. Expected volatilities are based upon historical volatility of the Company's stock over a period equal to the expected life of each stock option and SAR grant. The risk free interest rate is based on the stock option and SAR grant date for a traded U.S. Treasury bond with a maturity date closest to the expected life. The expected annual dividend yield is based on the Company's anticipated cash dividend payouts. The expected life represents the period of time that the stock options and SARs are expected to be outstanding based on a study of historical data of option holder exercise and termination behavior. Forfeitures are recognized as incurred.

The following table illustrates the assumptions used in estimating fair value in the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
Grant date fair value of stock options and SARs	$10.07	$8.61	$11.37
Expected stock price volatility	27.63 %	26.88 %	25.96 %
Risk-free interest rate	2.11 %	1.45 %	1.49 %
Expected annual dividend yield	1.87 %	2.10 %	1.55 %
Expected life of options & SARs (years)	5.8	6.0	5.7

The following table illustrates the stock option and SAR activity for the year ended December 31, 2017:

	Number of Shares (in 000's)	Weighted-Average Exercise Price
Outstanding at December 31, 2016	1,753	$ 42.16
Granted	848	$ 42.30
Forfeited	(148)	$ 44.49
Exercised	(145)	$ 31.12
Outstanding at December 31, 2017	2,308	$ 42.75
Exercisable at December 31, 2017	504	$ 42.46
Stock options & SARs expected to vest	1,804	$ 42.83

The weighted average remaining contractual term for SARs and stock options outstanding and exercisable at December 31, 2017 was 8.1 years and 7.0 years, respectively. The aggregate intrinsic value of SARs and stock options outstanding and exercisable at December 31, 2017 was $19.3 million and $4.4 million, respectively. The aggregate intrinsic value of stock options and SARs exercised during the years ended December 31, 2017, 2016 and 2015 was $2.7 million, $1.4 million and $2.8 million, respectively.

The following table illustrates the RSU and PSU activity for the year ended December 31, 2017:

	Number of Shares (in 000's)	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2016	297	$ 41.01
Granted	29	$ 48.32
Vested	(84)	$ 41.06
Forfeited	(14)	$ 44.64
Outstanding at December 31, 2017	228	$ 41.66

The weighted average fair value of awards of RSUs and PSUs granted in the years ended December 31, 2017, 2016 and 2015 was $48.32, $40.27 and $45.75, respectively.

The total fair value of shares vested was $3.4 million, $4.7 million and $6.0 million for the years ended December 31, 2017, 2016 and 2015, respectively.

As of December 31, 2017, there was $18.6 million of total unrecognized compensation cost related to nonvested stock options, SARs, RSUs and PSUs granted under the Plans which is expected to be recognized over a weighted average period of 3.1 years.

We offer to our employees a shareholder-approved Employee Stock Purchase Plan (the "Employee Plan"), under which we have reserved 1.0 million shares of common stock for issuance to our employees. The Employee Plan provides employees with the opportunity to invest from 1% to 10% of their annual salary to purchase shares of CONMED common stock at a purchase price equal to 95% of the fair market value of the common stock on the exercise date. During 2017, we issued approximately 20,300 shares of common stock under the Employee Plan. No stock-based compensation expense has been recognized in the accompanying consolidated financial statements as a result of common stock issuances under the Employee Plan.

Note 9 — Business Segments and Geographic Areas

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 executive management team) 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.

Beginning in fiscal year 2017, we adjusted our product line disclosures to align with the way we review net sales. In doing so, we consolidated our surgical visualization product line into our orthopedic surgery product line for all periods presented. Our product lines consist of orthopedic surgery and general surgery. Orthopedic surgery consists of sports medicine instrumentation and small bone, large bone and specialty powered surgical instruments as well as imaging systems for use in minimally invasive surgery procedures including 2DHD and 3DHD vision technologies and service fees related to the promotion and marketing of sports medicine allograft tissue. General surgery consists of a complete line of endo-mechanical instrumentation for minimally invasive laparoscopic and gastrointestinal procedures, a line of cardiac monitoring products as well as electrosurgical generators and related instruments. These product lines' net sales are as follows:

	2017	2016	2015

Orthopedic surgery	$428,944	$422,103	$444,978
General surgery	367,448	341,417	274,190
Consolidated net sales	$796,392	$763,520	$719,168

Net sales information for geographic areas consists of the following:

	2017	2016	2015
United States	$411,041	$399,107	$361,452
Americas (excluding the United States)	91,169	87,532	86,867
Europe, Middle East & Africa	155,849	147,985	145,565
Asia Pacific	138,333	128,896	125,284
Total	$796,392	$763,520	$719,168

Sales are attributed to countries based on the location of the customer. There were no significant investments in long-lived assets located outside the United States at December 31, 2017 and 2016. No single customer represented over 10% of our consolidated net sales for the years ended December 31, 2017, 2016 and 2015.

Note 10 — Employee Benefit Plans

We sponsor an employee savings plan ("401(k) plan") covering substantially all of our United States based employees. We also sponsor a defined benefit pension plan (the "pension plan") that was frozen in 2009. It covered substantially all our United States based employees at the time it was frozen.

Total employer contributions to the 401(k) plan were $7.5 million, $7.1 million and $7.6 million during the years ended December 31, 2017, 2016 and 2015, respectively.

We use a December 31, measurement date for our pension plan. Beginning in 2016, cumulative gains and losses in excess of 10% of the greater of the benefit obligation or the market-related value of assets are amortized on a straight-line basis over the lesser of the expected average remaining life expectancy of the plan's participants or 12 years. For each subsequent year after 2016, the limit of 12 years is adjusted to reflect the percentage change in the average remaining service period for the plan's active membership.

The following table provides a reconciliation of the projected benefit obligation, plan assets and funded status of the pension plan at December 31:

	2017	2016
Accumulated benefit obligation	$87,765	$82,005
Change in benefit obligation		
Projected benefit obligation at beginning of year	$82,005	$78,437
Service cost	603	452
Interest cost	2,773	2,878
Actuarial loss	6,556	4,844
Benefits paid	(1,976)	(1,814)
Settlement	(2,196)	(2,792)
Projected benefit obligation at end of year	$87,765	$82,005
Change in plan assets		
Fair value of plan assets at beginning of year	$69,061	$67,168
Actual gain on plan assets	10,043	6,499
Benefits paid	(1,976)	(1,814)
Settlement	(2,196)	(2,792)
Fair value of plan assets at end of year	$74,932	$69,061
Funded status	$(12,833)	$(12,944)

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

	2017	2016
Other long-term liabilities	$(12,833)	$(12,944)
Accumulated other comprehensive loss	(40,937)	(41,960)

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

	2017	2016
Discount rate	3.69%	4.28%

Accumulated other comprehensive loss for the years ended December 31, 2017 and 2016 consists of net actuarial losses of $40,937 and $41,960, respectively, not yet recognized in net periodic pension cost (before income taxes).

Other changes in plan assets and benefit obligations recognized in other comprehensive income in 2017 are as follows:

Current year actuarial loss	$(1,812)
Amortization of actuarial loss	2,835
Total recognized in other comprehensive loss	$1,023

The estimated portion of net actuarial loss in accumulated other comprehensive loss that is expected to be recognized as a component of net periodic pension cost in 2018 is $2.7 million.

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

	2017	2016	2015
Service cost	$603	$452	$240
Interest cost on projected benefit obligation	2,773	2,878	3,394
Expected return on plan assets	(5,300)	(5,189)	(5,697)
Amortization of loss	2,835	2,780	3,233
Net periodic pension cost	$911	$921	$1,170

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

	2017	2016	2015
Discount rate on benefit obligation	4.28%	4.54%	3.81%
Effective rate for interest on benefit obligation	3.49%	3.77%	3.81%
Expected return on plan assets	8.00%	8.00%	8.00%

In 2016, we changed the method we used to estimate the interest cost component of net periodic pension cost. Historically, we estimated the interest cost component using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. We have elected to use a full yield curve approach in the estimation of this component of benefit cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation that correlate to the relevant projected cash flows ("spot rate approach"). This change provides a more precise measurement of interest cost. This change did not affect the measurement of our total benefit obligation. We accounted for this change as a change in estimate and therefore accounted for it prospectively in 2016.

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

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

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

	Percentage of Pension Plan Assets		Target Allocation
	2017	2016	2018
Equity securities	87 %	86 %	75 %
Debt securities	13	14	25
Total	100%	100%	100 %

As of December 31, 2017, the pension plan held 27,562 shares of our common stock, which had a fair value of $1.4 million. We believe that our long-term asset allocation on average will approximate the targeted allocation. We regularly review our actual asset allocation and periodically rebalance the pension plan’s investments to our targeted allocation when deemed appropriate.

FASB guidance defines fair value and establishes a framework for measuring fair value and related disclosure requirements as described in Note 14. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016:

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

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

The following table sets forth by level, within the fair value hierarchy, the pension plan's assets at fair value as of December 31, 2017 and December 31, 2016:

December 31, 2017	Level 1	Level 2	Total
Common Stock	$36,643	$—	$36,643
Money Market Fund	—	1,517	1,517
Mutual Funds	28,798	—	28,798
Fixed Income Securities	7,974	—	7,974

$73,415	$1,517	$74,932

December 31, 2016	Level 1	Level 2	Total
Common Stock	$34,856	$—	$34,856
Money Market Fund	—	1,710	1,710
Mutual Funds	24,626	—	24,626
Fixed Income Securities	7,869	—	7,869
	$67,351	$1,710	$69,061

We do not expect to make any contributions to our pension plan for 2018.

The following table summarizes the benefits and settlements expected to be paid by our pension plan in each of the next five years and in aggregate for the following five years. The expected payments are estimated based on the same assumptions used to measure the Company’s projected benefit obligation at December 31, 2017 and reflect the impact of expected future employee service.

2018	$4,715
2019	5,539
2020	5,593
2021	4,974
2022	5,250
2023-2027	25,696

Note 11 — Legal Matters and Contingencies

From time to time, we are subject to claims alleging product liability, patent infringement or other claims incurred in the ordinary course of business. These may involve our United States or foreign operations, or sales by foreign distributors. Likewise, from time to time, the Company may receive an information request or subpoena 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 Department of Labor, the Treasury Department or other federal and state agencies or foreign governments or government agencies. These information requests or subpoenas may or may not be routine inquiries, or may begin as routine inquiries and over time develop into enforcement actions of various types. Likewise, we receive reports of alleged misconduct from employees and third parties, which 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. To date, we have not experienced any product liability 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 $25 million per incident and $25 million in the aggregate annually, which we believe is adequate. This coverage is on a claims-made basis. There can be no assurance that claims will not exceed insurance coverage, that the carriers will be solvent or that such insurance will be available to us in the future at a reasonable cost.

We establish reserves sufficient to cover probable 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.

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

In April 2017, the previously disclosed lawsuit involving false advertising claim by Lexion Medical ("Lexion") against SurgiQuest arising prior to the acquisition of SurgiQuest by CONMED went to trial in federal court in the District of Delaware. The claims arose under the Lanham Act, as well as Delaware state laws. Lexion sought damages of $22.0 million for alleged lost profits and $18.7 million for costs related to alleged “corrective advertising,” as well as damages claimed for disgorgement of SurgiQuest’s alleged profits and attorneys' fees. On January 4, 2016, SurgiQuest became a subsidiary of CONMED as further described in Note 2, and we assumed the costs and liabilities related to the Lexion lawsuit subject to the terms of the merger agreement referenced in Note 2. On April 11, 2017, a jury returned a verdict finding SurgiQuest liable for $2.2 million in compensatory damages with an additional $10.0 million in punitive damages. These costs are recorded in selling and administrative expense as of December 31, 2017 and are accrued in other current liabilities at December 31, 2017. The Court entered judgment on April 13, 2017. CONMED and Lexion have each filed post-verdict motions, with Lexion seeking an equitable award for disgorgement of SurgiQuest’s alleged profits, for so-called corrective advertising and for attorney’s fees, with CONMED seeking to vacate the award of punitive damages. There is no fixed time frame within which the District Court will decide the post-verdict motions. We are currently evaluating our plans for an appeal. There can be no assurance an appeal will be successful, if we pursue one.

In 2014, the Company acquired EndoDynamix, Inc. The agreement governing the terms of the acquisition provide 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. We have notified the seller that there is a need to redesign the product, and that as a consequence, the first commercial sale has been delayed. Consequently, the payment of contingent milestone and revenue-based payments have been delayed. On January 18, 2017, the seller provided notice ("the Notice") seeking $12.7 million, which essentially represents the seller’s view as to the sum of the projected contingent milestone and revenue-based payments on an accelerated basis. CONMED responded to the Notice denying that there was any basis for acceleration of the payments due under the acquisition agreement. On February 22, 2017, the representative of the former shareholders of EndoDynamix filed a complaint in Delaware Chancery Court claiming breach of contract with respect to the duty to commercialize the product and seeking the contingent payments on an accelerated basis. We believe that there was a legitimate contractual basis to support the Company’s decision to redesign the product, such that there was no legitimate basis for seeking the acceleration of the contingent payments. We expect to defend the claims asserted by the sellers of EndoDynamix in the Delaware Court, although there can be no assurance that we will prevail in the litigation.

Note 12 — Acquisition, Restructuring and Other Expense

Acquisition, restructuring and other expense for the year ended December 31, consists of the following:

	2017	2016	2015
Consolidation costs	$2,903	$3,066	$8,016
Termination of a product offering	—	4,546	—
Restructuring costs included in cost of sales	$2,903	$7,612	$8,016
Restructuring costs	$1,347	$6,670	$13,655
Business acquisition costs	2,336	17,029	2,543
Legal matters	17,480	3,773	—
Gain on sale of facility	—	(1,890)	—
Acquisition, restructuring and other expense included in selling and administrative expense	$21,163	$25,582	$16,198
Debt refinancing costs included in other expense	$—	$2,942	$—

During 2017 and 2016, we incurred $2.3 million and $17.0 million, respectively, in costs associated with the January 4, 2016 acquisition of SurgiQuest, Inc. as further described in Note 2. The costs incurred in 2017 consist of costs associated with expensing of unvested options acquired and integration related costs. The costs incurred in 2016 consist of investment banking fees, consulting fees, legal fees associated with the acquisition, costs associated with expensing of unvested options acquired and integration related costs. During 2015, we incurred $2.5 million in costs associated with the acquisition of SurgiQuest and other acquisitions during the year.

During 2017, we incurred $12.2 million in costs associated with the SurgiQuest, Inc. vs. Lexion Medical litigation verdict whereby SurgiQuest was found liable for $2.2 million in compensatory damages with an additional $10.0 million in punitive damages as further described in Note 11. These costs are accrued in other current liabilities at December 31, 2017. In addition, during the years ended December 31, 2017 and 2016, we incurred $5.3 million and $3.8 million, respectively, in costs associated with this litigation and other legal matters.

During 2016, we incurred a $2.7 million charge related to commitment fees paid to certain of our lenders, which provided a financing commitment for the SurgiQuest acquisition and recorded a loss on the early extinguishment of debt of $0.3 million in conjunction with the fifth amended and restated senior credit agreement as further described in Note 6.

For the years ending December 31, 2017, 2016 and 2015, we incurred $2.9 million, $3.1 million and $8.0 million, respectively, in costs associated with operational restructuring. These costs were charged to cost of sales and included severance, inventory and other charges. As part of this plan, we engaged a consulting firm to assist us in streamlining our product offering and improving our operational efficiency. As a result, we identified certain catalog numbers to be discontinued and consolidated into existing product offerings and recorded a $1.3 million charge in the year ended December 31, 2017 to write-off inventory which will no longer be offered for sale. This amount is included in the above total for 2017.

During 2016, the Company discontinued our Altrus product offering as part of our ongoing restructuring and incurred $4.5 million in non-cash charges primarily related to inventory and fixed assets which were included in cost of sales during 2016.

During 2016, we sold our Centennial, Colorado facility. We received net cash proceeds of $5.2 million and recorded a gain of $1.9 million on the sale.

During 2017, 2016 and 2015, we restructured certain selling and administrative functions and incurred $1.3 million, $6.7 million and $13.7 million, respectively, in related costs consisting principally of severance charges.

We have recorded a restructuring accrual in current and other long term liabilities of $1.3 million at December 31, 2017 mainly related to severance costs associated with restructuring. Below is a rollforward of the costs incurred and cash expenditures associated with these activities during 2017, 2016 and 2015:

Balance as of January 1, 2015	$8,254
Expenses incurred	21,671
Payments made	(22,750)
Balance as of December 31, 2015	7,175
Expenses incurred	9,736
Payments made	(14,268)
Balance as of December 31, 2016	2,643
Expenses incurred	4,250
Payments made	(5,635)
Balance as of December 31, 2017	$1,258

A portion of this accrual will be paid out in 2018.

Note 13 — 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 and reusable equipment is generally one year and our extended warranties can vary in length. Liability under service and warranty policies is based upon a review of historical warranty and service claim experience. Adjustments are made to accruals as claim data and historical experience warrant.

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

	2017	2016	2015
Balance as of January 1,	$1,954	$2,509	$2,286
Provision for warranties	3,432	2,967	3,836
Claims made	(3,636)	(3,522)	(3,613)
Balance as of December 31,	$1,750	$1,954	$2,509

Note 14 – Fair Value Measurement

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

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

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Foreign Currency Forward Contracts. We hedge forecasted intercompany sales denominated in foreign currencies through the use of forward contracts. The notional contract amounts for forward contracts outstanding at December 31, 2017 which have been accounted for as cash flow hedges totaled $126.0 million. Net realized gains (losses) recognized for forward contracts accounted for as cash flow hedges approximated -$0.7 million, $1.2 million and $10.4 million for the years ended December 31, 2017, 2016 and 2015, respectively. Net unrealized losses on forward contracts outstanding which have been accounted for as cash flow hedges and which have been included in other comprehensive income totaled $3.5 million at December 31, 2017. It is expected these unrealized losses will be recognized in the consolidated statement of comprehensive income in 2018 and 2019.

We also enter into forward contracts to exchange foreign currencies for United States dollars in order to hedge our currency transaction exposures on intercompany receivables denominated in foreign currencies. The notional contract amounts for forward contracts outstanding at December 31, 2017 which have not been designated as hedges totaled $30.4 million. Net realized gains (losses) recognized in connection with those forward contracts not accounted for as hedges approximated -$1.6 million, $0.0 million and $0.4 million for the years ended December 31, 2017, 2016 and 2015, respectively, offsetting gains (losses) on our intercompany receivables of $1.1 million, -$0.1 million and -$0.8 million for the years ended December 31, 2017, 2016 and 2015, respectively. These gains and losses have been recorded in selling and administrative expense in the consolidated statements of comprehensive income.

We record these forward foreign exchange contracts at fair value; the following tables summarize the fair value for forward foreign exchange contracts outstanding at December 31, 2017 and 2016:

December 31, 2017	Asset Fair Value	Liabilities Fair Value	Net Fair Value
Derivatives designated as hedging instruments:			
Foreign exchange contracts	$ 346	$ (5,945)	$ (5,599)
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	4	(78)	(74)
Total derivatives	$ 350	$ (6,023)	$ (5,673)

December 31, 2016	Asset Fair Value	Liabilities Fair Value	Net Fair Value
Derivatives designated as hedging instruments:			
Foreign exchange contracts	$3,962	$ (1,510)	$2,452
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	48	(54)	(6)
Total derivatives	$4,010	$ (1,564)	$2,446

Our forward foreign exchange contracts are subject to a master netting agreement and qualify for netting in the consolidated balance sheets. Accordingly, at December 31, 2017 and December 31, 2016 we have recorded the net fair value of $5.7 million in other current liabilities and $2.4 million in prepaid expenses and other current assets, respectively.

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 December 31, 2017 consist of forward foreign exchange contracts and contingent liabilities associated with a business acquisition. 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.

Certain acquisitions involve the potential for the payment of future contingent consideration upon the achievement of certain revenue targets. Contingent consideration is recorded at the estimated fair value of the revenue based payments on the acquisition date. The fair value of the contingent consideration is remeasured at the estimated fair value at each reporting period with the change in fair value recognized as income or expense within selling and administrative expenses in the consolidated statements of comprehensive income. We remeasure the liability on a recurring basis using Level 3 inputs as defined under authoritative guidance for fair value measurements.

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

Note 15 - New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, along with amendments issued in 2015 and 2016. This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services.

The guidance in this ASU was effective for annual reporting periods beginning after December 15, 2017 and early adoption is permitted as of January 1, 2017. The standard allows the option of either a full retrospective adoption, meaning the standard is applied to all periods presented, or a modified retrospective adoption, meaning the standard is applied only to the most current period. The Company adopted the new standard effective January 1, 2018, and is applying the modified retrospective approach.

We assessed the impact of adopting these ASUs on each of our revenue streams and performed a detailed review of contracts with customers on a sample basis. As a result of our assessment, we do not expect the new guidance to have a material impact on the consolidated financial statements. We have identified certain costs currently included in selling and administrative expense and principally related to administrative fees paid to group purchasing organizations that the new standard requires be recorded as a reduction of revenue beginning in 2018. These costs were approximately $8.2 million for the year ended December 31, 2017. We believe there is no material impact on net income or earnings per share as a result of this change.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. An entity should measure inventory within the scope of this ASU at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU is effective for annual periods beginning after December 15, 2016. We

implemented this new guidance during the first quarter of 2017 and it did not have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). This requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The new standard is effective for interim and annual periods beginning after December 15, 2018 and early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-02.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. We adopted this new guidance effective January 1, 2017. This ASU requires the following:

- All tax effects are now recorded in the statement of operations and are accounted for as an operating activity in the statement of cash flows on a prospective basis. Historically, tax benefits in excess of compensation cost were recorded in equity and were accounted for in the financing section of the cash flow. This ASU resulted in a $0.6 million tax benefit during the year ended December 31, 2017.

- All cash payments made to taxing authorities on the employee's behalf for withheld shares are to be presented as financing activities in the statement of cash flows on a retrospective basis. As a result, we reclassified a $1.7 million and $2.8 million cash outflow from operating activities to financing activities for the years ended December 31, 2016 and 2015, respectively.

- In the diluted net earnings per share calculation, when applying the treasury stock method for shares that could be repurchased, the assumed proceeds no longer include the amount of excess tax benefit. This did not have a material impact on the Company's diluted net earnings per share calculation.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the FASB Emerging Issues Task Force). This ASU provides amendments to specific statement of cash flows classification issues. This new guidance is effective for periods beginning after December 15, 2017, however early adoption is permitted. The Company adopted this new guidance effective January 1, 2017 and it did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in this ASU require that a statement of cash flows explain the change during the period in total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The ASU is effective for periods beginning after December 15, 2017, however early adoption is permitted. The Company does not expect this update to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Clarifying the Definition of a Business. This ASU states when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. In addition, this guidance states in order to be a business, an input and a substantive process must significantly contribute to the ability to produce outputs. This new guidance is effective for periods beginning after December 15, 2017, and early adoption is permitted for interim or annual periods during which an applicable transaction occurs. We adopted this new guidance as of July 1, 2017.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment. This ASU removes Step 2 of the goodwill impairment test, which requires hypothetical purchase price allocation. A goodwill impairment will now be the amount by which the reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This new guidance is effective for periods beginning after December 15, 2019, however early adoption is permitted. The Company is currently assessing the impact of this guidance on our consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07 Compensation Retirement Benefits (ASC 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU requires companies to record the service component of net periodic pension cost in the same income statement line as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic pension cost would be presented in the income statement separately from the service cost component and outside the subtotal of income from operations, if one is presented. This guidance is applicable for periods beginning after December 15, 2017 and must be applied retrospectively. Early adoption is permitted. We do not expect this update to materially impact our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Based Compensation (ASC 718) - Scope of Modification Accounting. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted. This guidance is in line with the Company’s current interpretation of ASC 718, Stock Compensation, and we do not expect this clarification to have a material impact on our consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU makes more financial and non-financial hedging strategies eligible for hedge

accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. It is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted. We do not expect this guidance to have a material impact on our consolidated financial statements.

Note 16 — Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data for 2017 and 2016 are as follows:

	Three Months Ended			
	March	June	September	December
2017				
Net sales	$186,567	$197,154	$190,117	$222,555
Gross profit	99,885	104,652	102,547	123,958
Net income (loss)	(4,545)	6,139	7,197	46,696
EPS:				
Basic	$(.16)	$.22	$.26	$1.67
Diluted	(.16)	.22	.26	1.65

	Three Months Ended			
	March	June	September	December
2016				
Net sales	$181,201	$193,433	$184,792	$204,094
Gross profit	97,740	102,422	101,209	106,959
Net income (loss)	(2,265)	2,884	7,337	6,708
EPS:				
Basic	$(.08)	$.10	$.26	$.24
Diluted	(.08)	.10	.26	.24

Items Included In Selected Quarterly Financial Data:

2017

First Quarter

During the first quarter of 2017, we incurred $1.2 million in costs associated with operational restructuring. These costs were charged to cost of sales and include severance and other charges - see Note 12.

During the first quarter of 2017, we incurred $0.5 million in costs associated with the expensing of unvested options acquired and integration related costs associated with the acquisition of SurgiQuest, Inc. These costs were charged to selling and administrative expense - see Note 12.

During the first quarter of 2017, we incurred $12.2 million in costs associated with the SurgiQuest, Inc. vs. Lexion Medical litigation verdict whereby SurgiQuest was found liable for $2.2 million in compensatory damages with an additional $10.0 million in punitive damages. These costs were charged to selling and administrative expense - see Notes 11 and 12.

During the first quarter of 2017, we incurred $2.0 million in costs associated with a patent settlement, legal fees associated with the SurgiQuest, Inc. vs. Lexion Medical litigation and other legal matters. These costs were charged to selling and administrative expense - see Notes 11 and 12.

During the first quarter of 2017, we restructured certain selling and administrative functions and incurred $1.3 million in related costs consisting principally of severance charges. These costs were charged to selling and administrative expense- see Note 12.

Second Quarter

During the second quarter of 2017, we incurred $0.3 million in costs associated with operational restructuring. These costs were charged to cost of sales and include severance and other charges - see Note 12.

During the second quarter of 2017, we incurred $0.4 million in costs associated with the expensing of unvested options acquired and integration related costs associated with the acquisition of SurgiQuest, Inc. These costs were charged to selling and administrative expense - see Note 12.

During the second quarter of 2017, we incurred $2.5 million in costs associated with SurgiQuest, Inc. vs. Lexion Medical litigation and other legal matters. These costs were charged to selling and administrative expense - see Notes 11 and 12.

Third Quarter

During the third quarter of 2017, we incurred $1.3 million in costs associated with operational restructuring. These costs were charged to cost of sales and include the write-off of inventory no longer being offered for sale and other charges - see Note 12.

During the third quarter of 2017, we incurred $0.1 million in integration related costs associated with the acquisition of SurgiQuest, Inc. These costs were charged to selling and administrative expense - see Note 12.

During the third quarter of 2017, we incurred $0.3 million in costs associated with SurgiQuest, Inc. vs. Lexion Medical litigation and other legal matters. These costs were charged to selling and administrative expense - see Notes 11 and 12.

Fourth Quarter

During the fourth quarter of 2017, we incurred $0.1 million in costs associated with operational restructuring. These costs were charged to cost of sales - see Note 12.

During the fourth quarter of 2017, we incurred $1.3 million in integration related costs associated with the acquisition of SurgiQuest, Inc. These costs were charged to selling and administrative expense - see Note 12.

During the fourth quarter of 2017, we incurred $0.4 million in costs associated with SurgiQuest, Inc. vs. Lexion Medical litigation and other legal matters. These costs were charged to selling and administrative expense - see Notes 11 and 12.

During the fourth quarter of 2017, we recorded an income tax benefit of $31.9 million resulting from the 2017 Tax Cuts and Jobs Act - see Note 7.

2016

First Quarter

During the first quarter of 2016, we incurred $0.9 million in costs associated with the consolidation of our Centennial, Colorado manufacturing operations into other existing CONMED manufacturing facilities. These costs were charged to cost of sales and include severance and other charges associated with the consolidation – see Note 12.

During the first quarter of 2016, we incurred $8.2 million in costs associated with the January 4, 2016 acquisition of SurgiQuest, Inc. These costs include investment banking fees, consulting fees, legal fees associated with the acquisition, costs associated with expensing of unvested options acquired and integration related costs and were charged to selling and administrative expense - see Notes 2 and 12.

During the first quarter of 2016, we incurred $0.8 million in costs associated with SurgiQuest, Inc. vs. Lexion Medical litigation. These costs were charged to selling and administrative expense - see Notes 11 and 12.
During the first quarter of 2016, we incurred a $2.7 million charge related to commitment fees paid to certain of our lenders, which provided a financing commitment for the SurgiQuest acquisition and recorded a loss on the early extinguishment of debt of $0.3 million in conjunction with the fifth amended and restated senior credit agreement. These costs were charged to other expense - see Notes 6 and 12.

During the first quarter of 2016, we recorded a charge of $2.8 million to selling and administrative expense related to the restructuring of certain selling and administrative functions which includes severance and other related costs - see Note 12.

Second Quarter

During the second quarter of 2016, we incurred $0.1 million in costs associated with the consolidation of our Centennial, Colorado manufacturing operations into other existing CONMED manufacturing facilities. These costs were charged to cost of sales and include severance and other charges associated with the consolidation – see Note 12.

During the second quarter of 2016, the Company discontinued our Altrus product offering as part of our ongoing restructuring and incurred $4.5 million in non-cash charges which were included in cost of sales - see Note 12.

During the second quarter of 2016, we incurred $3.6 million in costs associated with the acquisition of SurgiQuest, Inc. which include consulting fees, legal fees associated with the acquisition, costs associated with expensing of unvested options acquired and integration related costs. These costs were charged to selling and administrative expense - see Notes 2 and 12.

During the second quarter of 2016, we incurred $1.4 million in costs associated with SurgiQuest, Inc. vs. Lexion Medical litigation and other legal matters. These costs were charged to selling and administrative expense - see Notes 11 and 12.

During the second quarter of 2016, we recorded a charge of $1.0 million to selling and administrative expense related to the restructuring of certain selling and administrative functions which includes severance and other related costs - see Note 12.

Third Quarter

During the third quarter of 2016, we incurred $2.7 million in costs associated with the acquisition of SurgiQuest, Inc. which include consulting fees, legal fees associated with the acquisition, costs associated with expensing of unvested options acquired and integration related costs. These costs were charged to selling and administrative expense - see Notes 2 and 12.

During the third quarter of 2016, we incurred $0.6 million in costs associated with SurgiQuest, Inc. vs. Lexion Medical litigation and other legal matters. These costs were charged to selling and administrative expense - see Notes 11 and 12.

During the third quarter of 2016, we sold our Centennial, Colorado facility. We received net cash proceeds of $5.2 million and recorded a gain of $1.9 million on the sale of our facility in selling and administrative expense - see Note 12.

During the third quarter of 2016, we recorded a charge of $0.4 million to selling and administrative expense related to the restructuring of certain selling and administrative functions which includes severance and other related costs - see Note 12.

Fourth Quarter

During the fourth quarter of 2016, we incurred $2.1 million in severance and other related costs associated with restructuring. These costs were charged to cost of sales - see Note 12.

During the fourth quarter of 2016, we incurred $2.5 million in costs associated with the acquisition of SurgiQuest, Inc. which include consulting fees, legal fees associated with the acquisition, costs associated with expensing of unvested options acquired and integration related costs. These costs were charged to selling and administrative expense - see Notes 2 and 12.

During the fourth quarter of 2016, we incurred $1.0 million in costs associated with SurgiQuest, Inc. vs. Lexion Medical litigation and other legal matters. These costs were charged to selling and administrative expense- see Notes 11 and 12.

During the fourth quarter of 2016, we recorded a charge of $2.6 million to selling and administrative expense related to the restructuring of certain selling and administrative functions which includes severance and other related costs - see Note 12.

SCHEDULE II—Valuation and Qualifying Accounts
(In thousands)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
2017				
Allowance for bad debts	$ 2,031	$ 1,031	$ (925)	$ 2,137
Sales returns and allowance	1,817	424	(22)	2,219
Deferred tax asset valuation allowance	441	129	—	570
2016				
Allowance for bad debts	$ 1,336	$ 983	$ (288)	$ 2,031
Sales returns and allowance	1,814	268	(265)	1,817
Deferred tax asset valuation allowance	124	317	—	441
2015				
Allowance for bad debts	$ 1,239	$ 493	$ (396)	$ 1,336
Sales returns and allowance	1,636	373	(195)	1,814
Deferred tax asset valuation allowance	293	—	(169)	124

Item 16. Form 10-K Summary

Registrants may voluntarily provide a summary of information required by Form 10-K under this Item 16. The Company has elected not to include such summary information.