CONMED CORP
Form 10-Q
May 05, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010	Commission File Number 0-16093

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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 shorter period that the registrant was required to submit and post such files). x

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 definition of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

The number of shares outstanding of registrant's common stock, as of April 30, 2010 is 29,180,524 shares.

CONMED CORPORATION

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2010

PART I FINANCIAL INFORMATION

PART I FINANCIAL INFORMATION
Item 1.

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

	Three Months Ended March 31,	
	2009	2010
Net sales	$164,062	$176,365
Cost of sales	87,710	84,570
Gross profit	76,352	91,795
Selling and administrative expense	61,853	70,552
Research and development expense	8,489	7,682
Other expense (income)	(1,336)	-
	69,006	78,234
Income from operations	7,346	13,561
Gain on early extinguishment of debt	1,083	-
Amortization of debt discount	1,045	1,052
Interest expense	1,488	1,749
Income before income taxes	5,896	10,760
Provision for income taxes	1,411	3,441
Net income	$4,485	$7,319
Per share data:		
Net income		
Basic	$.15	$.25

Diluted	.15	.25
Weighted average common shares		
Basic	29,030	29,165
Diluted	29,061	29,409

See notes to consolidated condensed financial statements.

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

	December 31, 2009	March 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,098	$ 9,970
Accounts receivable, net	126,162	148,578
Inventories	164,275	168,619
Deferred income taxes	14,782	14,741
Prepaid expenses and other current assets	10,293	11,221
Total current assets	325,610	353,129
Property, plant and equipment, net	143,502	142,615
Deferred income taxes	1,953	1,738
Goodwill	290,505	294,823
Other intangible assets, net	190,849	194,385
Other assets	5,994	5,676
Total assets	$ 958,413	$ 992,366
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 2,174	$ 35,174
Accounts payable	26,210	27,582
Accrued compensation and benefits	25,955	22,291
Income taxes payable	677	81
Other current liabilities	24,091	20,726
Total current liabilities	79,107	105,854
Long-term debt	182,195	173,910
Deferred income taxes	97,916	103,355
Other long-term liabilities	22,680	24,934
Total liabilities	381,898	408,053
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value $.01 per share;		
authorized 500,000 shares; none outstanding	-	-
Common stock, par value $.01 per share;		
100,000,000 shares authorized; 31,299,203 shares		
issued in 2009 and 2010, respectively	313	313
Paid-in capital	317,366	318,130
Retained earnings	325,370	332,574
Accumulated other comprehensive loss	(12,405)	(13,160)
Less: 2,149,832 and 2,126,596 shares of common stock		

in treasury, at cost in 2009 and 2010, respectively	(54,129)	(53,544)
Total shareholders' equity	576,515	584,313
Total liabilities and shareholders' equity	$ 958,413	$ 992,366

See notes to consolidated condensed financial statements.

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

	Three Months Ended March 31,	
	2009	2010
Cash flows from operating activities:		
Net income	$4,485	$7,319
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Depreciation	4,011	4,147
Amortization of debt discount	1,045	1,052
Amortization, all other	4,395	5,083
Stock-based compensation	974	940
Deferred income taxes	2,535	3,598
Gain on early extinguishment of debt	(1,083)	-
Sale of accounts receivable to (collections on		
behalf of) purchaser (Note 13)	(2,000)	(29,000)
Increase (decrease) in cash flows		
from changes in assets and liabilities:		
Accounts receivable	5,472	5,378
Inventories	(3,391)	(8,002)
Accounts payable	(4,643)	3,836
Income taxes payable	(2,141)	(620)
Accrued compensation and benefits	41	(3,509)
Other assets	(133)	(865)
Other liabilities	(2,851)	(2,289)
Net cash provided by (used in)		
operating activities	6,716	(12,932)
Cash flows from investing activities:		
Payments related to business acquisitions	(112)	(5,083)
Purchases of property, plant and equipment	(7,441)	(3,333)
Net cash used in investing activities	(7,553)	(8,416)
Cash flows from financing activities:		
Net proceeds from common stock issued under		
employee plans	110	267
Proceeds of long term debt	12,000	-
Payments on long term debt	(7,913)	(9,337)
Proceeds from secured borrowings, net (Note 13)	-	33,000
Net change in cash overdrafts	(3,164)	(2,531)
Net cash provided by financing activities	1,033	21,399

Effect of exchange rate changes		
on cash and cash equivalents	171	(179)
Net increase (decrease) in cash and cash equivalents	367	(128)
Cash and cash equivalents at beginning of period	11,811	10,098
Cash and cash equivalents at end of period	$12,178	$9,970

See notes to consolidated condensed financial statements.

CONMED CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited, in thousands except share and 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 with an emphasis on surgical devices and equipment for minimally invasive procedures and monitoring. The Company's products serve the clinical areas of arthroscopy, powered surgical instruments, electrosurgery, cardiac monitoring disposables, endosurgery and endoscopic technologies. They are used by surgeons and physicians in a variety of specialties including orthopedics, general surgery, gynecology, neurosurgery, and gastroenterology.

Note 2 - Interim financial information

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. Results for the period ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

The consolidated condensed financial statements and notes thereto should be read in conjunction with the financial statements and notes for the year-ended December 31, 2009 included in our Annual Report on Form 10-K.

Note 3 – Other comprehensive income

Comprehensive income consists of the following:

	Three months ended March 31,	
	2009	2010
Net income	$4,485	$7,319
Other comprehensive income:		
Pension liability, net of income tax	12,349	207
Cash flow hedging gain, net of income tax	-	606
Foreign currency translation adjustments	(3,396)	(1,568)
Comprehensive income	$13,438	$6,564

Accumulated other comprehensive income (loss) consists of the following:

	Cash Flow Hedging Gain	Pension Liability	Cumulative Translation Adjustments	Accumulated Other Comprehensive Income (loss)
Balance, December 31, 2009	$ 76	$ (16,282)	$ 3,801	$ (12,405)
Pension liability, net of income tax	-	207	-	207
Cash flow hedging gain, net of income tax	606	-	-	606
Foreign currency translation adjustments	-	-	(1,568)	(1,568)
Balance, March 31, 2010	$ 682	$ (16,075)	$ 2,233	$ (13,160)

Note 4 – Fair value of financial instruments

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

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

Foreign Currency Forward Contracts. We hedge forecasted intercompany sales denominated in foreign currencies through the use of forward contracts. We account for these forward contracts as cash flow hedges. To the extent these forward contracts meet hedge accounting criteria, changes in their fair value are not included in current earnings but are included in Accumulated Other Comprehensive Loss. These changes in fair value will be recognized into earnings as a component of sales when the forecasted transaction occurs. The notional contract amounts for forward contracts outstanding at March 31, 2010 which have been accounted for as cash flow hedges totaled $51.9 million. Net realized gains recognized for forward contracts accounted for as cash flow hedges approximated $0.9 million for the quarter ended March 31, 2010. Net unrealized gains on forward contracts outstanding which have been accounted for as cash flow hedges and which have been included in accumulated other comprehensive income (loss) totaled $0.7 million at March 31, 2010. It is expected these unrealized gains will be recognized in income in 2010 and 2011.

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 March 31, 2010 which have not been designated as hedges totaled $38.4 million. Net realized gains recognized in connection with those forward contracts not accounted for as hedges approximated $0.3 million for the quarter ended March 31, 2010, offsetting losses on our intercompany receivables of $0.6 million for the quarter ended March 31, 2010. These gains and losses have been recorded in selling and administrative expense in the consolidated statements of income.

We record these forward foreign exchange contracts at fair value; the following table summarizes the fair value for forward foreign exchange contracts outstanding at March 31, 2010:

	Asset Balance Sheet Location	Fair Value	Liabilities Balance Sheet Location	Fair Value	Net Fair Value
Derivatives designated as hedged instruments:					
Foreign Exchange Contracts	Prepaid Expenses and other current assets	$ 2,011	Prepaid Expenses and other current assets	$ (929)	$ 1,082
Derivatives not designated as hedging instruments:					
Foreign Exchange Contracts	Prepaid Expenses and other current assets	-	Prepaid Expenses and other current assets	(62)	(62)
Total derivatives		$ 2,011		$ (991)	$ 1,020

Our forward foreign exchange contracts are subject to a master netting agreement and qualify for netting in the consolidated balance sheets. Accordingly, we have recorded the net fair value of $1.0 million in prepaid expenses and other current assets.

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

As of March 31, 2010, we do not have any significant non-recurring measurements of nonfinancial assets and nonfinancial liabilities.

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

Valuation Techniques. Liabilities carried at fair value and measured on a recurring basis as of March 31, 2010 consist of forward foreign exchange contracts and two embedded derivatives associated with our 2.50% convertible senior subordinated notes (the “Notes”). The value of the forward foreign exchange contract liabilities was determined within Level 2 of the valuation hierarchy and is listed in the table above. The value of the two embedded derivatives associated with the Notes was determined within Level 2 of the valuation hierarchy and was not material either individually or in the aggregate to our financial position, results of operations or cash flows.

The carrying amounts reported in our balance sheets for cash and cash equivalents, accounts receivable, accounts payable and long-term debt excluding the 2.50% convertible senior subordinated notes approximate fair value. The fair value of the Notes approximated $108.3 million and $111.4 million at December 31, 2009 and March 31, 2010, respectively, based on their quoted market price.

Note 5 - Inventories

Inventories consist of the following:

	December 31, 2009	March 31, 2010
Raw materials	$ 48,959	$ 46,783
Work-in-process	17,203	17,045
Finished goods	98,113	104,791
Total	$ 164,275	$ 168,619

Note 6 – 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 share-based awards. The following table sets forth the computation of basic and diluted earnings per share for the three month periods ended March 31, 2009 and 2010.

	Three months ended March 31, 2009	Three months ended March 31, 2010
Net income	$4,485	$7,319
Basic – weighted average shares outstanding	29,030	29,165
Effect of dilutive potential securities	31	244
Diluted – weighted average shares outstanding	29,061	29,409
Basic EPS	$.15	$.25
Diluted EPS	.15	.25

The shares used in the calculation of diluted EPS exclude options and stock appreciation rights where the exercise price was greater than the average market price of common shares for the period. Such shares aggregated approximately 2.5 million and 1.4 million for the three months ended March 31, 2009 and 2010, respectively. The shares used in the calculation of diluted EPS also exclude potential shares issuable under the Notes. Upon conversion of the Notes, the holder of each Note will receive the conversion value of the Note payable in cash up to the principal amount of the Note and CONMED common stock for the Note's conversion value in excess of such principal amount. As of March 31, 2010, our share price has not exceeded the conversion price of the Notes, therefore the conversion value was less than the principal amount of the Notes. Accordingly, under the net share settlement method, there were no potential shares issuable under the Notes to be used in the calculation of diluted EPS. The maximum number of shares we may issue with respect to the Notes is 5,750,000.

Note 7 – Goodwill and other intangible assets

The changes in the net carrying amount of goodwill for the three months ended March 31, 2010 are as follows:

Balance as of January 1, 2010	$290,505
Adjustments to goodwill resulting from business acquisitions finalized	4,168
Foreign currency translation	150
Balance as of March 31, 2010	$294,823

Total accumulated impairment losses (associated with our CONMED Endoscopic Technologies operating unit) aggregated $46,689 at December 31, 2009 and March 31, 2010.

Goodwill associated with each of our principal operating units is as follows:

	December 31, 2009	March 31, 2010
CONMED Electrosurgery	$ 16,645	$ 16,645
CONMED Endosurgery	42,439	42,439
CONMED Linvatec	171,397	175,647
CONMED Patient Care	60,024	60,092
Balance	$ 290,505	$ 294,823

Other intangible assets consist of the following:

	December 31, 2009		March 31, 2010	
Amortized intangible assets:	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	$127,594	$ (36,490)	$127,594	$ (37,562)
Patents and other intangible assets	41,809	(30,408)	46,868	(30,859)

Unamortized intangible assets:				
Trademarks and tradenames	88,344	-	88,344	-
	$257,747	$ (66,898)	$262,806	$ (68,421)

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Other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. The weighted average amortization period for intangible assets which are amortized is 25 years. Customer relationships are being amortized over a weighted average life of 34 years. Patents and other intangible assets are being amortized over a weighted average life of 15 years.

Amortization expense related to intangible assets which are subject to amortization totaled $1,553 and $1,523 in the three months ended March 31, 2009 and 2010, respectively. These amounts have been included in selling and administrative expense on the Consolidated Condensed Statements of Income.

The estimated amortization expense for the year ending December 31, 2010, including the quarterly period ended March 31, 2010, and for each of the five succeeding years, is as follows:

2010	6,089
2011	5,892
2012	5,838
2013	5,624
2014	5,099
2015	4,541

Note 8 — Guarantees

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

Changes in the carrying amount of service and product warranties for the three months ended March 31, are as follows:

	2009	2010
Balance as of January 1,	$3,341	$3,383
Provision for warranties	850	345
Claims made	(888)	(547)
Balance as of March 31,	$3,303	$3,181

Note 9 – Pension plan

Net periodic pension costs consist of the following:

	Three months ended March 31,	
	2009	2010
Service cost	$1,747	$44

Interest cost on projected benefit obligation	1,139	1,006
Expected return on plan assets	(999)	(1,003)
Net amortization and deferral	599	328
Curtailment gain	(4,368)	-
Net periodic pension cost (gain)	$(1,882)	$375

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During the first quarter of 2009, the Company announced the freezing of benefit accruals under the defined benefit pension plan for United States employees ("the Plan") effective May 14, 2009. As a result, the Company recorded a curtailment gain of $4.4 million and a reduction in accrued pension (included in other long term liabilities) of $11.4 million.

We are required and expect to make $3.0 million in contributions to our pension plan in 2010. We did not make any contributions in the quarter ended March 31, 2010.

Note 10 — Other expense (income)

Other expense (income) consists of the following:

	Three months ended March 31, 2009	Three months ended March 31, 2010
New plant/facility consolidation costs	$546	$-
Net pension gain	(1,882)	-
Other income	$(1,336)	$-

During the first quarter of 2009 we incurred $3.5 million in restructuring costs of which $0.5 million have been recorded in other expense and include charges related to the consolidation of our distribution centers. The remaining $3.0 million in restructuring costs have been charged to cost of goods sold and represent startup activities associated with a new manufacturing facility in Chihuahua, Mexico and the closure of two Utica, New York area manufacturing facilities.

During the first quarter of 2009, we elected to freeze benefit accruals under the defined benefit pension plan for United States employees, effective May 14, 2009. As a result, we recorded a net pension gain of $1.9 million associated with the elimination of future benefit accruals under the pension plan (see Note 9).

Note 11 — Business Segments and Geographic Areas

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

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

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

	Three months ended March 31, 2009	2010
Arthroscopy	$63,832	$72,253
Powered Surgical Instruments	32,823	34,990
CONMED Linvatec	96,655	107,243
CONMED Electrosurgery	22,380	23,083
CONMED Endosurgery	14,526	17,080
CONMED Endosurgery, Electrosurgery and Linvatec	133,561	147,406
CONMED Patient Care	18,465	17,159
CONMED Endoscopic Technologies	12,036	11,800
Total	$164,062	$176,365

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

The following is a reconciliation between segment operating income (loss) and income (loss) before income taxes:

	Three months ended March 31, 2009	2010
CONMED Linvatec, Electrosurgery and Endosurgery	$12,511	$17,256
CONMED Patient Care	(440)	346
CONMED Endoscopic Technologies	(1,842)	199
Corporate	(2,883)	(4,240)
Income from operations	7,346	13,561
Gain on early extinguishment of debt	1,083	-
Amortization of debt discount	1,045	1,052
Interest expense	1,488	1,749
Income before income taxes	$5,896	$10,760

Note 12 – Legal proceedings

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

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

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

On April 7, 2006, CONMED received a copy of a complaint filed in the United States District for the Northern District of New York on behalf of a purported class of former CONMED Linvatec sales representatives. The complaint alleges that the former sales representatives were entitled to, but did not receive, severance in 2003 when CONMED Linvatec restructured its distribution channels. The range of loss associated with this complaint ranges from $0 to $3.0 million, not including any interest, fees or costs that might be awarded if the five named plaintiffs were to prevail on their own behalf as well as on behalf of the approximately 70 (or 90 as alleged by the plaintiffs) other members of the purported class. CONMED Linvatec did not generally pay severance during the 2003 restructuring because the former sales representatives were offered sales positions with CONMED Linvatec's new manufacturer's representatives. Other than three of the five named plaintiffs in the class action, nearly all of CONMED Linvatec's former sales representatives accepted such positions.

The Company's motions to dismiss and for summary judgment, which were heard at a hearing held on January 5, 2007, were denied by a Memorandum Decision and Order dated May 22, 2007. The District Court also granted the plaintiffs' motion to certify a class of former CONMED Linvatec sales representatives whose employment with CONMED Linvatec was involuntarily terminated in 2003 and who did not receive severance benefits. With discovery essentially completed, on July 21, 2008, the Company filed motions seeking summary judgment and to decertify the class. In addition, on July 21, 2008, Plaintiffs filed a motion seeking summary judgment. These motions were submitted for decision on August 26, 2008. There is no fixed time frame within which the Court is required to rule on the motions. The Company believes there is no merit to the claims asserted in the Complaint, and plans to vigorously defend the case. There can be no assurance, however, that the Company will prevail in the litigation.

Note 13 – New accounting pronouncements

In June 2009, the FASB issued guidance which requires additional disclosures about the transfer and derecognition of financial assets, eliminates the concept of qualifying special-purpose entities, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor's interest in transferred financial assets. Our accounts receivable sales agreement under which a wholly-owned, bankruptcy-remote, special purpose subsidiary of CONMED Corporation sells an undivided percentage ownership interest in receivables to a bank is no longer permitted to be accounted for as a sale and reduction in accounts receivable. We adopted this guidance effective January 1, 2010 and as a result, accounts receivable sold under the agreement ($33.0 million at March 31, 2010) have been recorded as additional borrowings rather than as a reduction in accounts receivable.

Note 14 – Restructuring

During the first quarter of 2010, we began the second phase of our operational restructuring plan which includes the transfer of additional production lines from Utica, New York to our manufacturing facility in Chihuahua, Mexico.

As of March 31, 2010, we have incurred $0.6 million in costs associated with the restructuring. These costs were charged to cost of goods sold and include severance and other charges associated with the transfer of production to Mexico.

We estimate the total cost of the second phase of our restructuring plan will approximate $3.0 million during 2010, including $1.5 million related to employee termination costs and $1.5 million in other restructuring related activities. We expect to include these restructuring costs in cost of goods sold. The second phase of the restructuring plan impacts Corporate manufacturing facilities which support multiple reporting segments. As a result, costs associated with the second phase of our restructuring plan will be reflected in the Corporate line within our business segment reporting.

Note 15 – Business Acquisition

During the first quarter of 2010, the Company acquired the stock of a business for a cash purchase price of $5.0 million. The fair value of this acquisition included assets of $5.0 million related to in-process research and development and $4.1 million in goodwill, and liabilities of $2.4 million related to contingent consideration and $1.7 million in deferred income tax liabilities. The in-process research and development and goodwill associated with the acquisition are not deductible for income tax purposes.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking statements

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