

STRYKER CORP
Form 10-Q
April 30, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark one)

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

For the quarterly period ended March 31, 2015

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

Commission file number: 000-09165

STRYKER CORPORATION

(Exact name of registrant as specified in its charter)

Michigan

(State of incorporation)

38-1239739

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

2825 Airview Boulevard, Kalamazoo,

Michigan

(Address of principal executive offices)

49002

(Zip Code)

(269)-385-2600

(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 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 such shorter period that the registrant was required to submit and post such files). YES NO

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 "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Edgar Filing: STRYKER CORP - Form 10-Q

Large accelerated filer Accelerated filer

Non-accelerated filer Small 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

Number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
378,409,144 shares of Common Stock, \$0.10 par value, as of March 31, 2015.

STRYKER CORPORATION

2015 First Quarter Form 10-Q

PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Stryker Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

| | Three Months Ended | | |
|---|--------------------|---------|---|
| | March 31 | | |
| | 2015 | 2014 | |
| Net sales | \$2,379 | \$2,305 | |
| Cost of sales | 826 | 776 | |
| Gross profit | 1,553 | 1,529 | |
| Research, development and engineering expenses | 152 | 150 | |
| Selling, general and administrative expenses | 892 | 859 | |
| Recall charges | 54 | 344 | |
| Intangible asset amortization | 49 | 45 | |
| Total operating expenses | 1,147 | 1,398 | |
| Operating income | 406 | 131 | |
| Other income (expense), net | (29 |) (24 |) |
| Earnings before income taxes | 377 | 107 | |
| Income taxes | 153 | 37 | |
| Net earnings | \$224 | \$70 | |
| Net earnings per share of common stock: | | | |
| Basic net earnings per share of common stock | \$0.59 | \$0.19 | |
| Diluted net earnings per share of common stock | \$0.58 | \$0.18 | |
| Weighted-average shares outstanding - in millions: | | | |
| Basic | 378.9 | 378.2 | |
| Net effect of dilutive employee stock options | 4.6 | 4.4 | |
| Diluted | 383.5 | 382.6 | |
| Anti-dilutive shares excluded from the calculation of net effect of dilutive employee stock options | — | 2.5 | |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

| | Three Months Ended | | |
|---|--------------------|---------|---|
| | March 31 | | |
| | 2015 | 2014 | |
| Net earnings | \$224 | \$70 | |
| Other comprehensive income, net of tax | | | |
| Marketable securities | 1 | 3 | |
| Pension plans | 13 | (1 |) |
| Unrealized gains on designated hedges | 1 | (3 |) |
| Financial statement translation | (282 |) 37 | |
| Total other comprehensive (loss) income, net of tax | (267 |) 36 | |
| Comprehensive (loss) income | \$(43 |) \$106 | |

See accompanying notes to Consolidated Financial Statements.

Dollar amounts in millions except per share amounts or as
otherwise specified

STRYKER CORPORATION

2015 First Quarter Form 10-Q

Stryker Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS (Unaudited)

| | March 31 2015 | December 31 2014 |
|---|------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,674 | \$ 1,795 |
| Marketable securities | 2,589 | 3,205 |
| Accounts receivable, less allowance of \$57 (\$59 in 2014) | 1,521 | 1,572 |
| Inventories | | |
| Materials and supplies | 260 | 248 |
| Work in Process | 101 | 88 |
| Finished Goods | 1,221 | 1,252 |
| Total inventories | 1,582 | 1,588 |
| Deferred income taxes | 894 | 989 |
| Prepaid expenses and other current assets | 467 | 524 |
| Total current assets | 8,727 | 9,673 |
| Property, plant and equipment | | |
| Land, buildings and improvements | 667 | 678 |
| Machinery and equipment | 1,861 | 1,919 |
| Total property, plant and equipment | 2,528 | 2,597 |
| Less allowance for depreciation | 1,459 | 1,499 |
| Net property, plant and equipment | 1,069 | 1,098 |
| Other assets | | |
| Goodwill | 4,099 | 4,186 |
| Other intangibles, net | 1,960 | 2,018 |
| Other | 725 | 738 |
| Total assets | \$ 16,580 | \$ 17,713 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 333 | \$ 329 |
| Accrued compensation | 346 | 597 |
| Income taxes | 288 | 333 |
| Dividend payable | 131 | 131 |
| Accrued recall expenses | 1,588 | 1,593 |
| Accrued expenses and other liabilities | 784 | 754 |
| Current maturities of debt | 225 | 727 |
| Total current liabilities | 3,695 | 4,464 |
| Long-term debt, excluding current maturities | 3,257 | 3,246 |
| Other liabilities | 1,307 | 1,408 |
| Shareholders' equity | | |
| Common stock, \$0.10 par value: | | |
| Authorized: 1 billion shares, outstanding: 378 million shares (378 million in 2014) | 38 | 38 |
| Additional paid-in capital | 1,277 | 1,252 |
| Retained earnings | 7,527 | 7,559 |
| Accumulated other comprehensive income | (521) | (254) |
| Total shareholders' equity | 8,321 | 8,595 |

| | | |
|--|----------|----------|
| Total liabilities & shareholders' equity | \$16,580 | \$17,713 |
|--|----------|----------|

See accompanying notes to Consolidated Financial Statements.

2

Dollar amounts in millions except per share amounts or as otherwise specified

STRYKER CORPORATION

2015 First Quarter Form 10-Q

Stryker Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Unaudited)

| | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
|---|-----------------|----------------------------------|----------------------|---|---------|
| Balances at December 31, 2014 | \$38 | \$1,252 | \$7,559 | \$(254) | \$8,595 |
| Net earnings | | | 224 | | 224 |
| Other comprehensive loss | | | | (267) | (267) |
| Issuance of 1.2 million shares of common stock under stock option and benefit plans, including \$37 excess income tax benefit | | 7 | | | 7 |
| Repurchase and retirement of 1.4 million shares of common stock | | (5) | (125) | | (130) |
| Share-based compensation | | 23 | | | 23 |
| Cash dividends declared of \$0.345 per share of common stock | | | (131) | | (131) |
| Balances at March 31, 2015 | \$38 | \$1,277 | \$7,527 | \$(521) | \$8,321 |

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | Three Months Ended March 31 | |
|---|--------------------------------|---------|
| | 2015 | 2014 |
| Operating activities | | |
| Net earnings | \$224 | \$70 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation | 45 | 46 |
| Amortization of intangible assets | 49 | 45 |
| Share-based compensation | 23 | 21 |
| Gross recall charges | 54 | 344 |
| Sale of inventory stepped up to fair value at acquisition | 7 | 5 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | 12 | 93 |
| Inventories | (42) | (61) |
| Accounts payable | 8 | 30 |
| Accrued expenses and other liabilities | (142) | (226) |
| Recall related payments | (19) | (24) |
| Income taxes | 27 | (56) |
| Other | 134 | (78) |
| Net cash provided by operating activities | 380 | 209 |
| Investing activities | | |
| Acquisitions, net of cash acquired | (84) | (272) |
| Purchases of marketable securities | (631) | (1,017) |
| Proceeds from sales of marketable securities | 1,087 | 1,008 |
| Purchases of property, plant and equipment | (46) | (70) |
| Net cash provided by (used in) investing activities | 326 | (351) |
| Financing activities | | |
| Proceeds from borrowings | 581 | 344 |

Edgar Filing: STRYKER CORP - Form 10-Q

| | | | | |
|--|--------|---|------|---|
| Payments on borrowings | (1,081 |) | (55 |) |
| Dividends paid | (131 |) | (115 |) |
| Repurchase and retirement of common stock | (130 |) | — | |
| Other financing | 27 |) | 9 | |
| Net cash (used in) provided by financing activities | (734 |) | 183 | |
| Effect of exchange rate changes on cash and cash equivalents | (93 |) | 1 | |
| Change in cash and cash equivalents | \$(121 |) | \$42 | |

See accompanying notes to Consolidated Financial Statements.

3

Dollar amounts in millions except per share amounts or as otherwise specified

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 - BASIS OF PRESENTATION

General Information

These statements should be read in conjunction with our Annual Report on Form 10-K for 2014. Management believes that the accompanying unaudited Consolidated Financial Statements include all adjustments, including normal recurring items, considered necessary for a fair presentation of the interim periods. However, the results of operations included in such financial statements may not necessarily be indicative of annual results.

To conform with the current year presentation, certain immaterial amounts previously reported as selling, general and administrative expenses have been reclassified to cost of sales.

New Accounting Pronouncements Not Yet Adopted

In May 2014 the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. We will adopt the standard on January 1, 2017. We are still evaluating the impact, if any, that the standard will have on our financial statements. No other new accounting pronouncement issued or effective during the period had or is expected to have a material impact on the Consolidated Financial Statements.

NOTE 2 - FAIR VALUE MEASUREMENTS

Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 Quoted market prices in active markets for identical assets or liabilities.
- Level 2 Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3 Unobservable inputs reflecting our assumptions or external inputs from active markets.

When applying fair value principles in the valuation of assets and liabilities, we are required to maximize the use of quoted market prices and minimize the use of unobservable inputs. We calculate the fair value of our Level 1 and Level 2 instruments based on the exchange traded price of similar or identical instruments, where available, or based on other observable inputs taking into account our credit risk and that of our counterparties. Foreign currency exchange contracts and interest rate swaps are included in Level 2 as we use inputs other than quoted prices that are observable for the asset or liability. The Level 2 derivative instruments are primarily valued using standard calculations and models that use readily observable market data as their basis. The fair value of our Level 3 liabilities represents milestone payments for acquisitions and is calculated based on the net present value of expected cash flows utilizing a discounted cash flow technique based on externally provided or obtained inputs, including our probability assessments of the occurrence of triggering events, appropriately discounted considering the uncertainties associated with the obligation. There were no significant transfers into or out of any level between December 31, 2014 and March 31, 2015.

We remeasure our assets and liabilities each reporting period and record the changes in fair value from changes in probability of occurrence in general and administrative expense and the changes in time value of money in other income (expense). During the period we evaluated but did not change our unobservable input assumptions and fair value techniques used in measuring the fair

value of our financial assets or liabilities from those disclosed in our Annual Report on Form 10-K for 2014.

Our valuation of our assets and liabilities measured at fair value is:

| | March 2015 | December 2014 |
|--|---------------|------------------|
| Cash and cash equivalents | \$1,674 | \$1,795 |
| Trading marketable securities | 80 | 80 |
| Level 1 - Assets | \$1,754 | \$1,875 |
| Available-for-sale marketable securities | | |
| Corporate and asset-backed debt securities | 1,263 | 1,525 |
| Foreign government debt securities | 589 | 726 |

Edgar Filing: STRYKER CORP - Form 10-Q

| | | |
|--|---------|---------|
| United States agency debt securities | 259 | 382 |
| United States treasury debt securities | 423 | 474 |
| Certificates of deposit | 66 | 110 |
| Other | 4 | 12 |
| Total available-for-sale marketable securities | 2,604 | 3,229 |
| Foreign currency exchange forward contracts | 38 | 32 |
| Interest rate swap asset | 21 | 10 |
| Level 2 - Assets | 2,663 | 3,271 |
| Total assets measured at fair value | \$4,417 | \$5,146 |
| Deferred compensation arrangements | 80 | 80 |
| Level 1 - Liabilities | 80 | 80 |
| Foreign currency exchange forward contracts | 41 | 12 |
| Interest rate swap liability | 3 | — |
| Level 2 - Liabilities | 44 | 12 |
| Contingent consideration | | |
| Beginning Balance | 48 | 59 |
| Losses included in earnings | 1 | 4 |
| Settlements | — | (15 |
| Balance at the end of the period | 49 | 48 |
| Level 3 - Liabilities | 49 | 48 |
| Total liabilities measured at fair value | \$173 | \$140 |

The cost and estimated fair value of available-for-sale marketable securities at March 31, 2015 by contractual maturity are:

| | Cost | Estimated Fair Value |
|--|-------|-------------------------|
| Due in one year or less | \$403 | \$403 |
| Due after one year through three years | 1,893 | 1,897 |
| Due after three years | 303 | 304 |

Less than 1% of our investments in available-for-sale securities had a credit quality rating of less than A2 (Moody's), A (Standard & Poors) and A (Fitch). We do not intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost basis, which may be maturity; accordingly, we do not consider these investments to be other-than-temporarily impaired at March 31, 2015.

Upon the sale of a security classified as available-for-sale, the security's specific unrealized gain (loss) is reclassified out of accumulated other comprehensive income (AOCI) into earnings based on the specific identification method.

The total of interest and marketable securities income was \$6 and \$6 for the three-month period March 31, 2015 and 2014, respectively, and is included in other income (expense).

STRYKER CORPORATION

2015 First Quarter Form 10-Q

A summary of our marketable securities follows:

| | March 2015 | December 2014 | |
|---|---------------|------------------|-------------------------|
| Available for Sale Securities: | | | |
| | | | Amortized Cost |
| Corporate and asset-backed debt securities | \$1,260 | \$1,523 | |
| Foreign government debt securities | 588 | 725 | |
| United States agency debt securities | 258 | 382 | |
| United States treasury debt securities | 423 | 474 | |
| Certificates of deposit | 66 | 110 | |
| Other | 4 | 12 | |
| | | | Gross Unrealized Gains |
| Corporate and asset-backed debt securities | \$3 | \$3 | |
| Foreign government debt securities | 1 | 2 | |
| United States agency debt securities | 1 | — | |
| United States treasury debt securities | — | — | |
| Certificates of deposit | — | — | |
| Other | — | — | |
| | | | Gross Unrealized Losses |
| Corporate and asset-backed debt securities | \$— | \$(1 |) |
| Foreign government debt securities | — | (1 |) |
| United States agency debt securities | — | — | |
| United States treasury debt securities | — | — | |
| Certificates of deposit | — | — | |
| Other | — | — | |
| | | | Estimated Fair Value |
| Corporate and asset-backed debt securities | \$1,263 | \$1,525 | |
| Foreign government debt securities | 589 | 726 | |
| United States agency debt securities | 259 | 382 | |
| United States treasury debt securities | 423 | 474 | |
| Certificates of deposit | 66 | 110 | |
| Other | 4 | 12 | |
| Total available-for-sale marketable securities | \$2,604 | \$3,229 | |
| Trading marketable securities | 80 | 80 | |
| Total marketable securities | \$2,684 | \$3,309 | |
| Reported as: | | | |
| Current assets- marketable securities | \$2,589 | \$3,205 | |
| Current assets- prepaid expenses and other current assets | 15 | 24 | |
| Noncurrent assets- other | 80 | 80 | |

The fair value and gross unrealized losses of our investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at March 31, 2015 are:

| | Number of Investments | Fair Value | Unrealized Losses |
|----------------------------|--------------------------|------------|----------------------|
| Less than 12 months | | | |
| Corporate and asset-backed | 664 | \$1,251 | \$— |
| Foreign Government | 131 | 582 | — |
| United States Agency | 92 | 259 | — |

Edgar Filing: STRYKER CORP - Form 10-Q

| | | | |
|----------------------------|-------|---------|-----|
| Other | 122 | 492 | — |
| | 1,009 | \$2,584 | \$— |
| Total | | | |
| Corporate and asset-backed | 671 | \$1,263 | \$— |
| Foreign Government | 133 | 589 | — |
| United States Agency | 92 | 259 | — |
| Other | 122 | 493 | — |
| | 1,018 | \$2,604 | \$— |

NOTE 3 - DERIVATIVE INSTRUMENTS

We use operational and economic hedges as well as foreign currency exchange forward contracts and interest rate derivative instruments to manage the impact of currency exchange on earnings and cash flow.

Foreign Exchange Forward Contract Derivatives

During the period we did not change our hedging strategies or objectives from those disclosed in our Annual Report on Form 10-K for 2014.

The gross notional, maximum term and gross fair value amounts of foreign exchange forward contract derivatives designated and non-designated as hedging instruments are:

| | Designated | Non-Designated | Total |
|------------------------------|------------|----------------|---------|
| March 31, 2015 | | | |
| Gross Notional Amount | \$414 | \$ 2,990 | \$3,404 |
| Maximum term in days | | | 546 |
| Fair Value | | | |
| Other Current Assets | \$19 | \$ 17 | \$36 |
| Other Noncurrent Assets | 2 | — | 2 |
| Other Current Liabilities | 4 | 36 | 40 |
| Other Noncurrent Liabilities | 1 | — | 1 |
| | \$16 | \$ (19) | \$(3) |
| December 31, 2014 | | | |
| Gross Notional Amount | \$357 | \$ 2,085 | \$2,442 |
| Maximum term in days | | | 546 |
| Fair Value | | | |
| Other Current Assets | \$18 | \$ 12 | \$30 |
| Other Noncurrent Assets | 2 | — | 2 |
| Other Current Liabilities | — | 12 | 12 |
| | \$20 | \$ — | \$20 |

We are exposed to credit loss in the event of nonperformance by counterparties on our outstanding forward currency exchange contracts but do not anticipate nonperformance by any of our counterparties. Should a counterparty default, our maximum exposure to loss is the asset balance of the instrument.

The net currency exchange rate gains (losses) for both designated and non-designated derivative instruments for the three-month periods March 31:

| | | |
|------------------------|------|----------|
| Recorded In: | 2015 | 2014 |
| Cost of goods sold | \$— | \$2 |
| Other income (expense) | (4 |)(6) |
| Total | \$(4 |)\$ (4) |

Pretax gains on derivatives designated as hedges that are expected to be reclassified from AOCI into earnings within the next twelve months is \$20. This reclassification is primarily due to the sale of inventory that includes previously hedged purchases. There have been no ineffective portions of derivatives that have resulted in gains or losses in any periods presented.

Forecasted Debt Issuance Interest Rate Risk

Forward starting interest rate derivative instruments designated as cash flow hedges are used to manage the exposure to interest rate volatility with regard to future issuances of debt. The effective portion of the gains or losses on the forward starting interest rate derivative instrument that is designated and qualifies as a cash flow hedge is reported as a component of AOCI. Beginning in the period in which the planned debt issuance occurs and the related derivative instrument is terminated, the effective portion of the gains or losses is then reclassified into interest expense, net over the term of the related debt.

At March 31, 2015 we had interest rate swaps with a notional amount of \$375 designated as forward starting interest rate swaps in anticipation of planned debt issuances. The market value of outstanding interest rate swap agreements at March 31, 2015 was \$3, which is recorded in other long-term liabilities with an offsetting amount recorded in AOCI in the consolidated balance sheet. No hedge ineffectiveness was recorded as a result of these cash flow hedges for the three-month period March 31, 2015.

Fair Value Hedges

Interest rate derivative instruments designated as fair value hedges are used to manage the exposure to interest rate movements and to reduce borrowing costs by converting fixed-rate debt into floating-rate debt. Under these agreements we agree to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount.

At March 31, 2015 we had interest rate swaps in gross notional amounts of \$500 designated as fair value hedges of underlying fixed rate obligations representing a portion of our \$600 senior unsecured notes due in 2024. The market value of outstanding interest rate swap agreements at March 31, 2015 was a realized gain of \$21, which is recorded in other assets with an offsetting realized loss of \$21 on the fair value of the underlying fixed rate obligation recorded in long-term debt in the consolidated balance sheet. No hedge ineffectiveness was recorded as a result of these fair value hedges for the three-month period March 31, 2015.

NOTE 4 - ACQUISITIONS

In January 2015 we completed the acquisition of certain assets of CHG Hospital Beds, Inc. (CHG) in an all cash transaction. CHG designs, manufactures and markets a series of low-height hospital beds and related accessories. This acquisition enhances our product offerings within our MedSurg segment. The acquisition is included in the "Other" column in the table below.

In 2014 we completed the acquisition of certain assets of Small Bone Innovations, Inc. (SBI) for an aggregate purchase price of approximately \$358, the acquisition of Berchtold Holding, AG (Berchtold) for an aggregate purchase price of approximately \$184 and the acquisition of Patient Safety Technologies, Inc. (PST) for an aggregate purchase price of \$120. The acquired net assets of other business acquisitions completed in 2014 are in the "Other" column in the table below.

For the PST and "Other" acquisitions in 2014, the measurement periods have been completed and revisions to our original estimates include increases to liabilities of \$2 and \$8 and decreases to goodwill of \$2 and \$8, respectively. The purchase price allocations for CHG, SBI, Berchtold and "Other" acquisitions in 2014 are based upon preliminary valuations, and our estimates and assumptions are subject to change within the measurement period as the valuations are finalized. We are in the process of verifying data and information related to these acquisitions to finalize the recording of identifiable intangible assets, deferred income taxes and goodwill. Goodwill acquired associated with the SBI and CHG acquisitions are deductible for tax purposes.

The effects of all the acquisitions described above are included in our Consolidated Financial Statements prospectively from the close of the respective acquisition. Pro forma consolidated results of operations for the three-month periods March 31, 2015 and 2014 would not differ significantly as a result of these acquisitions.

The allocation of the purchase prices of each acquisition to the acquired net assets is as follows:

| | 2015 | 2014 | | | |
|--------------------------------|-------|-------|-----------|-------|-------|
| | Other | SBI | Berchtold | PST | Other |
| Purchase price paid | \$70 | \$358 | \$184 | \$120 | \$216 |
| Tangible assets acquired: | | | | | |
| Cash | — | — | 12 | — | — |
| Inventory | 5 | 34 | 22 | 7 | 5 |
| Other assets | 12 | 4 | 38 | 19 | 25 |
| Liabilities | (4) | (2) | (45) | (31) | (29) |
| Intangible assets: | | | | | |
| Customer relationship | 9 | 19 | 11 | 33 | 5 |
| Trade name | 1 | — | 7 | — | — |
| Developed technology & patents | 26 | 82 | 32 | 26 | 115 |
| Non-compete agreements | 2 | — | — | — | — |
| IPRD | — | — | — | — | 2 |
| Goodwill | 19 | 221 | 107 | 66 | 93 |
| | \$70 | \$358 | \$184 | \$120 | \$216 |

Edgar Filing: STRYKER CORP - Form 10-Q

Weighted-average life of intangible assets 11 12 8 14 12
 Intangible asset amortization expense was \$49 and \$45 for the three-month periods March 31, 2015 and 2014, respectively.

The estimated amortization expense for the next five years is:

| | Remainder of 2015 | 2016 | 2017 | 2018 | 2019 |
|----------------------|-------------------|-------|-------|-------|-------|
| Amortization expense | \$150 | \$170 | \$168 | \$152 | \$135 |

NOTE 5 - CONTINGENCIES AND COMMITMENTS

We are involved in various ongoing 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 below. The outcomes of these matters will generally not be known for prolonged periods of time. In certain of the legal proceedings, the claimants seek damages, as well as other compensatory and equitable relief, that could result in the payment of significant claims and settlements and/or the imposition of injunctions or other equitable relief. For legal matters for which management has sufficient information to reasonably estimate our future obligations, a liability representing management's best estimate of the probable loss, or the minimum of the range of probable losses when a best estimate within the range is not known, is recorded. The estimates are based on consultation with legal counsel, previous settlement experience and settlement strategies. If actual outcomes are less favorable than those estimated by management, additional expense may be incurred, which could unfavorably affect future operating results. We are currently self-insured for product liability-related claims and expenses. The ultimate cost to us with respect to product liability claims could be materially different than the amount of the current estimates and accruals and could have a material adverse effect on our financial position, results of operations and cash flows. In June 2012 we voluntarily recalled our Rejuvenate and ABG II Modular-Neck hip stems and terminated global distribution of these hip products. Product liability lawsuits relating to this voluntary recall have been filed against us. On November 3, 2014 we announced that we had entered into a settlement agreement to compensate eligible United States patients who had revision surgery to replace their Rejuvenate and/or ABG II Modular-Neck hip stem prior to that date. We continue to offer support for recall-related care and reimburse patients who are not eligible to enroll in the settlement program for testing and treatment services, including any necessary

revision surgeries. In addition, some lawsuits will remain and we will continue to defend against them. Based on the information that has been received, the actuarially determined range of probable loss to resolve this entire matter on a global basis is estimated to be approximately \$1,587 (\$1,766 before \$179 of third-party insurance recoveries) to \$2,510. In the three-month period March 31, 2015 we recorded charges to earnings of \$54 representing the excess of the minimum of the range over the previously recorded reserves. The final outcome of this matter is dependent on many factors that are difficult to predict including the number of enrollees in the settlement program and total awards to them, the number and costs of patients not eligible for the settlement program who seek testing and treatment services and require revision surgery and the number and actual costs to resolve the remaining lawsuits. Accordingly, the ultimate cost to resolve this entire matter globally may be materially different than the amount of the current estimate and accruals and could have a material adverse effect on our financial position, results of operations and cash flows.

In 2010 we filed a lawsuit in federal court against Zimmer Holdings, Inc. (Zimmer), alleging that a Zimmer product infringed three of our patents. In 2013, following a jury trial favorable to us, the trial judge entered a final judgment that among other things, awarded us damages of \$76 and ordered Zimmer to pay us enhanced damages. Zimmer appealed this ruling. In December 2014 the Federal Circuit affirmed the damages awarded to us, reversed the order for enhanced damages and remanded the issue of attorney fees to the trial court. We have filed for a petition for rehearing en banc on the issue of enhanced damages. Following the conclusion of the proceedings at the Federal Circuit, each party may seek Supreme Court review. We have not recorded a contingent gain related to this matter.

In April 2011 Hill-Rom Company, Inc. and affiliated entities (Hill-Rom) brought a lawsuit against us alleging infringement under United States patent laws with respect to nine patents related to electrical network communications for hospital beds. On March 31, 2015, the court granted the parties' joint motion to dismiss with prejudice the claims and counterclaims associated with three of these patents. The case has been stayed with respect to the remaining six patents, which currently are under reexamination by the United States Patent Office. The ultimate resolution of this matter cannot be predicted and it is not possible at this time for us to estimate any probable loss or range of probable losses. However, the ultimate result could have a material adverse effect on our financial position, results of operations and cash flows.

NOTE 6 - DEBT AND CREDIT FACILITIES

During the three-month period March 31, 2015, we repaid \$500 of all our senior unsecured notes that were due on January 15, 2015. Our commercial paper program allows us to have a maximum of \$1,250 in commercial paper outstanding, with maturities up to 397 days from the date of issuance. At March 31, 2015 outstanding commercial paper totaled \$200, the weighted-average original maturity of the commercial paper outstanding was approximately 40 days and the weighted-average interest rate was 0.21%.

Certain of our credit facilities require us to comply with financial and other covenants. We were in compliance with all covenants at March 31, 2015. We have lines of credit, issued by various financial institutions, available to fund our day-to-day operating needs. At March 31, 2015 we had \$1,279 of borrowing capacity available under all of our existing credit facilities. The weighted-average interest rate, excluding required fees, for all borrowings was 2.9% at March 31, 2015.

At March 31, 2015 the total unamortized debt issuance costs incurred in connection with our outstanding notes were \$20. The fair value of long-term debt (excluding the interest rate hedge) at March 31, 2015 and December 31, 2014 was \$3,352 and \$3,811, respectively, based on the quoted interest rates for similar types and amounts of borrowing agreements.

NOTE 7 - CAPITAL STOCK

In February 2015 we declared a quarterly dividend of \$0.345 per share, payable April 30, 2015 to shareholders of record at the close of business on March 31, 2015.

In March 2015 we announced that our Board of Directors had authorized us to purchase up to \$2,000 of our common stock (the 2015 Repurchase program). In 2012 and 2011, we announced that our Board of Directors had authorized us to purchase up to \$405 and \$500, respectively, of our common stock (the 2012 and 2011 Repurchase Programs, respectively). The manner, timing and amount of purchases is determined by management based on an evaluation of

market conditions, stock price and other factors and is subject to regulatory considerations. Purchases are to be made from time to time in the open market, in privately negotiated transactions or otherwise.

In the three-month period March 31, 2015, we repurchased 1.4 million shares at a cost of \$130 under the 2011 Repurchase Program. At March 31, 2015 the maximum dollar value of shares that may yet be purchased was \$2,000 under the 2015 Repurchase program, \$405 under the 2012 Repurchase program and \$48 under the 2011 Repurchase Program. At March 31, 2015 the maximum dollar value of shares that may be purchased under the authorized Repurchase Programs was \$2,453.

NOTE 8 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in AOCI for the three-month period March 31, 2015:

| | Marketable Securities | Pension Plans | Hedges | Financial Statement Translation | Total | |
|-------------------------------|-----------------------|---------------|--------|---------------------------------|---------|---|
| Beginning | \$3 | \$(136 |)\$13 | \$(134 |)\$(254 |) |
| OCI before reclassifications | 4 | 15 | (1 |)(282 |)(264 |) |
| Tax (benefit) expense on OCI | (1 |)(3 |)2 | — | (2 |) |
| Reclassifications out of AOCI | (2 |)1 | — | — | (1 |) |
| Net current period OCI | 1 | 13 | 1 | (282 |)(267 |) |
| Ending | \$4 | \$(123 |)\$14 | \$(416 |)\$(521 |) |

Reclassifications out of AOCI for the three-month periods March 31:

| | 2015 | 2014 | |
|------------------------|------|-------|---|
| Marketable Securities | | | |
| Other (income) expense | \$(2 |)\$(2 |) |
| Tax expense (benefit) | — | — | |
| Net of tax | (2 |)(2 |) |
| Pension Plans | | | |
| Cost of Sales | 2 | 2 | |
| Tax expense (benefit) | (1 |)— | |
| Net of tax | 1 | 2 | |
| Hedges | | | |
| Cost of Sales | — | (2 |) |
| Tax expense (benefit) | — | 1 | |
| Net of tax | — | (1 |) |
| Total, net of tax | \$(1 |)\$(1 |) |

STRYKER CORPORATION

2015 First Quarter Form 10-Q

NOTE 9 - INCOME TAXES

Our effective tax rates for the three-month periods March 31, 2015 and 2014 were 40.6% and 34.5% respectively. The increase in the effective tax rate was primarily due to certain discrete items in 2015 related to the establishment of the European regional headquarters and other discrete tax matters.

NOTE 10 - SEGMENT INFORMATION

Net sales and net earnings by business segment for the three-month periods March 31 are:

| | 2015 | 2014 | |
|---|---------|---------|---|
| Orthopaedics | \$1,023 | \$999 | |
| MedSurg | 927 | 886 | |
| Neurotechnology and Spine | 429 | 420 | |
| Net sales | \$2,379 | \$2,305 | |
| Orthopaedics | 254 | 249 | |
| MedSurg | 163 | 145 | |
| Neurotechnology and Spine | 87 | 86 | |
| Segment net earnings | \$504 | \$480 | |
| Less: other (net of income taxes) | | | |
| Corporate and other | (80) | (76) |) |
| Acquisition and integration related charges | (13) | (13) |) |
| Amortization of intangible assets | (35) | (31) |) |
| Restructuring and related charges | (19) | (10) |) |
| Recall charges | (49) | (272) |) |
| Tax matters | (84) | (8) |) |
| Net earnings | \$224 | \$70 | |

Other than assets associated with the acquisitions that are discussed in greater detail in Note 4, there were no significant changes to total assets by segment from information provided in our Annual Report on Form 10-K for 2014.

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

ABOUT STRYKER

Stryker is one of the world's leading medical technology companies. We offer a diverse array of innovative medical technologies, including reconstructive, medical and surgical, and neurotechnology and spine products, to help people lead more active and more satisfying lives.

We segregate our operations into three reportable business segments: Orthopaedics, MedSurg, and Neurotechnology and Spine. The Orthopaedics segment primarily consists of implants used in hip and knee joint replacements and trauma and extremities surgeries. The MedSurg segment includes surgical equipment and surgical navigation systems (Instruments); endoscopic and communications systems (Endoscopy); patient handling and emergency medical equipment (Medical); and reprocessed and remanufactured medical devices (Sustainability) as well as other medical device products used in a variety of medical specialties. The Neurotechnology and Spine segment includes both neurosurgical and neurovascular devices.

In the United States, most of our products are marketed directly to doctors, hospitals and other healthcare facilities. In general, we maintain separate and dedicated sales forces for each of our principal product lines to provide focus and a high level of expertise to each medical specialty served. Internationally, our products are sold in over 100 countries through company-owned sales subsidiaries and branches as well as third-party dealers and distributors. Our business is generally not seasonal in nature; however, the number of reconstructive surgeries is generally lower during the summer months and sales of capital equipment are generally stronger in the fourth quarter.

In January 2015 we completed the acquisition of certain assets of CHG Hospital Beds, Inc. (CHG) in an all cash transaction. CHG designs, manufactures and markets a series of low-height hospital beds and related accessories.

8

Dollar amounts in millions except per share amounts or as otherwise specified

STRYKER CORPORATION

2015 First Quarter Form 10-Q

RESULTS OF OPERATIONS

| | Three Months March 31 | | | | |
|--|-----------------------|-------------|---------|-------------|-------------------|
| | 2015 | % Net Sales | 2014 | % Net Sales | Percentage Change |
| Net sales | \$2,379 | 100.0% | \$2,305 | 100.0% | 3.2 % |
| Gross profit | 1,553 | 65.3 | 1,529 | 66.3 | 1.6 |
| Research, development and engineering expenses | 152 | 6.4 | 150 | 6.5 | 1.3 |
| Selling, general and administrative expenses | 892 | 37.5 | 859 | 37.3 | 3.8 |
| Intangible amortization | 49 | 2.1 | 45 | 2.0 | 8.9 |
| Recall charges | 54 | 2.3 | 344 | 14.9 | (84.3) |
| Other income (expense), net | (29 |)(1.2) | (24 |)(1.0) | 20.8 |
| Income taxes | 153 | | 37 | | 313.5 |
| Net earnings | \$224 | 9.4% | \$70 | 3.0% | 220.0 |
| Diluted net earnings per share | \$0.58 | | \$0.18 | | 222.2 |
| Adjusted diluted net earnings per share | \$1.11 | | \$1.06 | | 4.7 |

For a discussion of non-GAAP financial measures used in this report see the "Non-GAAP Financial Measures" section on page 11.

Geographic and segment net sales:

| | Three Months March 31 | | | | Percentage Change | |
|---------------------------|-----------------------|---------|---------|---------|-------------------|-------------------|
| | 2015 | % Total | 2014 | % Total | Reported | Constant Currency |
| Geographic sales: | | | | | | |
| United States | \$1,673 | 70.3 % | \$1,542 | 66.9 % | 8.5 % | 8.5 % |
| International | 706 | 29.7 | 763 | 33.1 | (7.4) | 5.4 |
| Total net sales | \$2,379 | | \$2,305 | | 3.2 | 7.4 |
| Segment sales: | | | | | | |
| Orthopaedics | \$1,023 | 43.0 % | \$999 | 43.3 % | 2.4 | 7.5 |
| MedSurg | 927 | 39.0 | 886 | 38.4 | 4.6 | 7.7 |
| Neurotechnology and Spine | 429 | 18.0 | 420 | 18.2 | 2.1 | 6.6 |
| Total net sales | \$2,379 | | \$2,305 | | 3.2 | 7.4 |

Supplemental sales growth information:

| | Three Months March 31 | | Percentage Change | | | | |
|---------------------------|-----------------------|-------|-------------------|-------------------|---------------|-------------|-------------------|
| | 2015 | 2014 | U.S. | | International | | |
| | | | As Reported | Constant Currency | As Reported | As Reported | Constant Currency |
| Knees | \$345 | \$348 | (0.9) | 3.1 % | 2.4 % | (8.2) | 4.5 % |
| Hips | 312 | 318 | (1.6) | 3.6 | 7.5 | (13.3) | (1.3) |
| Trauma and Extremities | 313 | 288 | 8.5 | 15.0 | 18.4 | (3.5) | 10.9 |
| Other | 53 | 45 | 18.9 | 21.8 | 33.1 | (19.1) | (8.4) |
| ORTHOPAEDICS | \$1,023 | \$999 | 2.4 | 7.5 | 9.7 | (8.8) | 4.2 |
| Instruments | 346 | 343 | 0.8 | 4.4 | 2.9 | (5.0) | 8.5 |
| Endoscopy | 321 | 312 | 2.8 | 6.3 | 8.0 | (9.4) | 2.3 |
| Medical | 205 | 181 | 13.5 | 16.1 | 16.8 | 1.1 | 13.4 |
| Sustainability | 55 | 50 | 9.2 | 9.2 | 9.3 | (7.7) | 3.6 |
| MEDSURG | \$927 | \$886 | 4.6 | 7.7 | 8.1 | (5.8) | 6.7 |
| Neurotechnology | 252 | 243 | 3.8 | 9.2 | 10.4 | (6.3) | 7.4 |
| Spine | 177 | 177 | (0.1) | 3.0 | 2.4 | (6.4) | 4.7 |
| NEUROTECHNOLOGY AND SPINE | \$429 | \$420 | 2.1 | 6.6 | 6.7 | (6.4) | 6.6 |

THREE MONTHS ENDED MARCH 2015 COMPARED TO 2014:

Consolidated Net Sales

Consolidated net sales increased 3.2%. Net sales grew 7.1% as a result of increased unit volume and changes in product mix and 1.9% due to acquisitions. Net sales were unfavorably impacted by 4.2% due to foreign currency exchange rates and 1.6% due to changes in price. Excluding the impact of acquisitions, net sales increased by 5.6% in constant currency. The increase was primarily led by higher shipments of trauma and extremities, medical and neurotechnology products.

Orthopaedics Net Sales

Orthopaedics net sales increased 2.4%. This increase is primarily due to a 9.6% increase in unit volume and changes in product mix

and 1.0% due to acquisitions. Net sales were unfavorably impacted by 5.1% due to foreign currency exchange rates and 3.0% due to changes in price. Excluding the impact of acquisitions, net sales increased 6.5% in constant currency, led by higher shipments of trauma and extremities products.

MedSurg Net Sales

MedSurg net sales increased 4.6%. This increase is primarily due to a 3.9% increase in unit volume and changes in product mix, 3.5% due to acquisitions and 0.4% due to changes in price. Net sales were unfavorably impacted by 3.2% due to foreign currency exchange rates. Excluding the impact of acquisitions, net sales increased 4.3% in constant currency, led by higher shipments of our Medical products. Certain products associated with our

Instruments business were negatively impacted by a product supply issue at one of our suppliers.

Neurotechnology and Spine Net Sales

Neurotechnology and Spine net sales increased 2.1%. This increase is primarily due to a 8.2% increase in unit volume and changes in product mix and 0.6% due to acquisitions. Net sales were unfavorably impacted by 4.5% due to foreign currency exchange rates on net sales and 2.1% due to changes in price. Excluding the impact of acquisitions, net sales increased 6.0% in constant currency, led by higher shipments of neurotechnology products.

Cost of Sales

Cost of sales as a percentage of net sales increased to 34.7% in 2015 compared to 33.7% in 2014. Cost of sales as a percentage of net sales increased as a result of changes in selling prices for our products and by the unfavorable effect of foreign currency exchange rates. Cost of sales in 2015 and 2014 also includes \$7 and \$5, respectively, related to inventory that we stepped up to fair value following acquisitions and \$1 in restructuring related costs for both periods. Excluding the impact of the acquisition and restructuring costs described above, cost of sales was 34.4% in 2015 as a percentage of net sales compared to 33.4% in 2014.

Research, Development and Engineering Expenses

Research, development and engineering expenses increased 1.3% to \$152 in 2015, or 6.4% of net sales compared to 6.5% in 2014. The increased spending levels in 2015 were driven by the timing of projects and our continued investment in new technologies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of net sales were 37.5% in 2015 compared to 37.3% in 2014, including \$13 and \$16 in 2015 and 2014, respectively, in acquisition and integration related charges; and \$25 and \$14 in 2015 and 2014, respectively, in restructuring related charges. Excluding the impact of these charges, selling, general and administrative expenses were 35.9% of net sales in 2015 compared to 36.0% in 2014. This decrease was primarily related to disciplined expense management and the impact of higher sales in 2015.

Recall Charges

Recall charges include \$54 and \$344 in 2015 and 2014, respectively, related to the previously disclosed voluntary recall of the Rejuvenate and ABG II modular-neck hip stems and other recall matters.

Intangibles Amortization

Intangibles amortization was \$49 and \$45 in 2015 and 2014, respectively. The increase in intangibles amortization expense is primarily related to intangible assets that have recently been acquired.

Other Income (Expense), net

Other income (expense), net increased \$5 in 2015 from 2014, primarily due to higher interest expense.

Income Taxes

Our effective income tax rate on earnings was 40.6% and 34.5% in 2015 and 2014, respectively. The increase in the effective income tax rate was primarily due to certain discrete tax items in 2015 related to the establishment of the European regional headquarters and other discrete tax matters.

Net Earnings

Net earnings in 2015 increased to \$224 or \$0.58 per diluted share from \$70 or \$0.18 per diluted share in 2014. The impact of foreign currency exchange rates on net earnings reduced diluted net earnings per share by approximately \$0.06 in 2015.

Reported net earnings includes certain discrete tax items related to the establishment of the European regional headquarters and other discrete tax matters of \$84 and \$8 in 2015 and 2014, respectively; charges related to the previously disclosed voluntary recall of the Rejuvenate and ABG II modular-neck hip stems and other recall matters of \$49 and \$272 in 2015 and 2014, respectively; restructuring related charges of \$19 and \$10 in 2015 and 2014, respectively; acquisition and integration related charges of \$13 in both 2015 and in 2014; and amortization of purchased intangible assets of \$35 and \$31 in 2015 and 2014, respectively. Excluding the impact of these items, adjusted net earnings increased 5.0% to \$424 in 2015 from \$404 in 2014. Adjusted diluted net earnings per share increased 4.7% to \$1.11 in 2015 from \$1.06 in 2014.

NON-GAAP FINANCIAL MEASURES

We supplement the reporting of our financial information determined under accounting principles generally accepted in the United States (GAAP) with certain non-GAAP financial measures, including percentage sales growth in constant currency; percentage organic sales growth; adjusted gross profit; cost of sales excluding specified items; adjusted selling, general and administrative expenses; adjusted amortization of intangible assets; adjusted operating income; adjusted effective income tax rate; adjusted net earnings; and adjusted diluted net earnings per share (EPS). We believe that these non-GAAP measures provide meaningful information to assist investors and shareholders in understanding our financial results and assessing our prospects for future performance. Management believes percentage sales growth in constant currency and the other adjusted measures described above are important indicators of our operations because they exclude items that may not be indicative of or are unrelated to our core operating results and provide a baseline for analyzing trends in our underlying businesses. Management uses these non-GAAP financial measures for reviewing the operating results of reportable business segments and analyzing potential future business trends in connection with our budget process and bases certain management incentive compensation on these non-GAAP financial measures.

To measure percentage sales growth in constant currency, we remove the impact of changes in foreign currency exchange rates that affect the comparability and trend of sales. Percentage sales growth in constant currency is calculated by translating current year results at prior year average foreign currency exchange rates. To measure percentage organic sales growth, we remove the impact of changes in foreign currency exchange rates and acquisitions that affect the comparability and trend of sales. Percentage organic sales growth is calculated by translating current year results at prior year average foreign currency exchange rates excluding the impact of acquisitions.

To measure earnings performance on a consistent and comparable basis, we exclude certain items that affect the comparability of operating results and the trend of earnings. These adjustments are irregular in timing, may not be indicative of our past and future performance and are therefore excluded to allow investors to better understand underlying operating trends. The following are examples of the types of adjustments that may be included in a period:

1. Acquisition and integration related costs. Costs related to integrating recently acquired businesses and specific costs related to the consummation of the acquisition process.

STRYKER CORPORATION

2015 First Quarter Form 10-Q

2. Amortization of intangible assets. Periodic amortization expense related to purchased intangible assets.
3. Restructuring related charges. Costs associated with focused workforce reductions and other restructuring activities.
4. Other recall matters. Our best estimate of the minimum of the range of probable loss to resolve certain product recalls.
5. Regulatory and legal matters. Our best estimate of the minimum of the range of probable loss to resolve certain regulatory matters and other legal settlements.
6. Tax matters. Certain significant and discrete tax items and adjustments to interest expense related to the settlement of certain tax matters.

Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or

similar names. These adjusted financial measures should not be considered in isolation or as a substitute for reported sales growth, gross profit, cost of sales, selling, general and administrative expenses, amortization of intangible assets, operating income, effective income tax rate, net earnings and diluted net earnings per share, the most directly comparable GAAP financial measures. These non-GAAP financial measures are an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the reconciliations to corresponding GAAP financial measures at the end of the discussion of Results of Operations below, provide a more complete understanding of our business. We strongly encourage investors and shareholders to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure.

The following reconciles the non-GAAP financial measures of adjusted gross profit; adjusted selling, general and administrative expense; adjusted amortization of intangible assets; adjusted operating income; adjusted net earnings; adjusted effective tax rate; and adjusted diluted net earnings per share with the most directly comparable GAAP financial measures:

| Three-month period March 31, 2015 | Gross Profit | Selling, General & Administrative Expenses | Intangible Amortization | Operating Income | Net Earnings | Effective Tax Rate | Diluted EPS |
|---|--------------|--|-------------------------|------------------|--------------|--------------------|-------------|
| AS REPORTED | \$ 1,553 | \$ 892 | \$ 49 | \$ 406 | \$ 224 | 40.6 | % \$0.58 |
| Acquisition and integration related charges | | | | | | | |
| Inventory stepped up to fair value | 7 | — | — | 7 | 4 | 0.4 | 0.01 |
| Other acquisition and integration related | — | (13 |)— | 13 | 9 | 0.4 | 0.02 |
| Amortization of intangible assets | — | — | (49 |) 49 | 35 | 1.2 | 0.09 |
| Restructuring related charges | 1 | (25 |)— | 26 | 19 | 0.5 | 0.06 |
| Rejuvenate and other recall matters | — | — | — | 54 | 49 | (1.4 |) 0.13 |
| Tax matters | — | — | — | — | 84 | (22.2 |) 0.22 |
| ADJUSTED | \$ 1,561 | \$ 854 | \$ — | \$ 555 | \$ 424 | 19.5 | % \$1.11 |
| Three-month period March 31, 2014 | Gross Profit | Selling, General & Administrative Expenses | Intangible Amortization | Operating Income | Net Earnings | Effective Tax Rate | Diluted EPS |
| AS REPORTED | \$ 1,529 | \$ 859 | \$ 45 | \$ 131 | \$ 70 | 34.5 | % \$0.18 |

Acquisition and integration
related charges

| | | | | | | | |
|---|---------|-------|------|-------|-------|-------|---------|
| Inventory stepped up to fair value | 5 | — | — | 5 | 3 | 0.9 | 0.01 |
| Other acquisition and integration related | — | (16) |)— | 16 | 10 | 2.0 | 0.03 |
| Amortization of intangible assets | — | — | (45) |) 45 | 31 | 2.5 | 0.08 |
| Restructuring related charges | 1 | (14) |)— | 15 | 10 | 1.2 | 0.03 |
| Rejuvenate and other recall matters | — | — | — | 344 | 272 | (9.6) |) 0.71 |
| Tax Matters | — | — | — | — | 8 | (7.4) |) 0.02 |
| ADJUSTED | \$1,535 | \$829 | \$ — | \$556 | \$404 | 24.1 | %\$1.06 |

The weighted-average basic and diluted shares outstanding used in the calculation of these non-GAAP financial measures are the same as those used in the calculation of the reported per share amounts.

LIQUIDITY AND CAPITAL RESOURCES

| | 2015 | 2014 |
|--|---------|-------|
| Net cash provided by operating activities | \$380 | \$209 |
| Net cash provided by (used in) investing activities | 326 | (351) |
| Net cash (used in) provided by financing activities | (734) |)183 |
| Effect of exchange rate changes on cash and cash equivalents | (93) |)1 |
| Change in cash and cash equivalents | \$(121) | \$42 |
| Operating Activities | | |

Cash provided by operations totaled \$380 in 2015, compared to \$209 in 2014. Operating cash flows resulted primarily from net earnings adjusted for non-cash items (recall charges, depreciation and amortization, share-based compensation, sale of inventory "stepped up to fair value" at acquisition and deferred income taxes). In addition, the timing of income tax payments associated with tax liabilities arising from the establishment of our European regional headquarters contributed to the increase in operating cash flows in

2015. These increases were primarily offset by decreases in accrued expenses and other liabilities. The net of accounts receivable, inventory and accounts payable resulted in the consumption of \$22 of cash in 2015. Inventory days on hand increased by 12 days, while accounts receivable days sales outstanding increased by four days.

Investing Activities

Cash provided by investing activities totaled \$326 in 2015, compared to \$351 of cash used in investing activities in 2014.

Acquisitions. Acquisitions resulted in cash consumption of \$84 and \$272 in 2015 and 2014, respectively. In 2015 the primary acquisition was CHG and in 2014 the primary acquisitions were Patient Safety Technologies, Inc. and Pivot Medical Inc.

Capital Expenditures. Capital expenditures resulted in cash consumption of \$46 and \$70 in 2015 and 2014, respectively.

STRYKER CORPORATION

2015 First Quarter Form 10-Q

Marketable Securities. Cash provided by the net sales of marketable securities totaled \$456 in 2015, compared to \$9 of cash consumed for the net purchase of marketable securities in 2014.

Financing Activities

Dividend Payments. Dividends paid per common share increased 13.1% to \$0.345 per share in 2015, compared to \$0.305 in 2014. Total dividend payments to common shareholders were \$131 and \$115 in 2015 and 2014, respectively.

Long-Term and Short-Term Debt. Net repayments of debt were \$500 in 2015 as we repaid all of our senior unsecured notes that were due on January 15, 2015. Net borrowings were \$289 in 2014. Refer to Note 6 in the Notes to the Consolidated Financial Statements for further information.

Share Repurchases. The total use of cash for share repurchases was \$130 in 2015. We did not use any cash in 2014 related to share repurchases.

Liquidity

Cash, cash equivalents and marketable securities were \$4,263 and \$5,000 at March 31, 2015 and December 31, 2014, respectively, and current assets exceeded current liabilities by \$5,032 and \$5,209, respectively. We anticipate being able to support our short-term liquidity and operating needs, including settlements related to the Rejuvenate and ABG II recalls, from a variety of sources, including cash from operations, commercial paper and existing credit lines. In the past we have also raised funds in the capital markets and may continue to do so from time to time in the future. We have strong short-term and long-term debt ratings that we believe should enable us to refinance our debt as it becomes due.

Should additional funds be required, we had approximately \$1,279 of borrowing capacity available under all of our existing credit facilities at March 31, 2015.

At March 31, 2015 approximately 63.8% of our consolidated cash, cash equivalents and marketable securities were held in locations outside the United States. In 2015 we repatriated approximately \$650 of this cash, and we expect to repatriate additional cash in the second half of 2015. Our remaining cash held in locations outside the United States is considered to be indefinitely reinvested. We intend to use this cash to expand operations, either organically or through acquisitions, outside the United States.

We continually evaluate our receivables, particularly in Spain, Portugal, Italy and Greece (the Southern European Region). The total net receivables from the Southern European Region were approximately \$146 and \$154 at March 31, 2015 and December 31, 2014, respectively, including approximately \$76 and \$78, respectively, of sovereign receivables. We believe that our current reserves related to receivables are adequate and any additional credit risk associated with the Southern European Region is not expected to have a material adverse impact on our financial position or liquidity. We currently do not have any investments in the sovereign debt instruments of the Southern European Region. Any non-sovereign exposure in these countries in our investment portfolios is considered immaterial.

Critical Accounting Policies

There have been no significant changes to our critical accounting policies from those disclosed in our Annual Report on Form 10-K for 2014.

New Accounting Pronouncements Not Yet Adopted

Refer to Note 1 in the Notes to the Consolidated Financial Statements for further information.

Guarantees and Other Off-Balance Sheet Arrangements

We do not have guarantees or other off-balance sheet financing arrangements, including variable interest entities, that we believe could have a material impact on our financial condition or liquidity.

OTHER MATTERS

Legal and Regulatory Matters

As further described in Note 5 to the Consolidated Financial Statements, we have recorded charges to earnings totaling \$54 representing the minimum of the range of probable loss to resolve the Rejuvenate and ABG II recalls. Based on the information that has been received, the actuarially determined range of probable loss to resolve this matter is estimated to be approximately \$1,587 (\$1,766 before \$179 of third-party insurance recoveries) to \$2,510.

The final outcome of this matter is dependent on many variables that are difficult to predict. The ultimate cost to entirely resolve this matter may be materially different than the amount of the current estimate and could have a material adverse effect on our financial position, results of operations and cash flows. We are not able to reasonably estimate the future periods in which payments will be made.

FORWARD-LOOKING STATEMENTS

This report contains statements referring to us that are not historical facts and are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are intended to take advantage of the "safe harbor" provisions of the Reform Act, are based on current projections about operations, industry conditions, financial condition and liquidity. Words that identify forward-looking statements include words such as "may," "could," "will," "should," "would," "possible," "plan," "predict," "forecast," "potential," "anticipate," "estimate," "expect," "project," "intend," "believe," "may impact," "on track," and words and terms of similar substance used in connection with any discussion of future operating or financial performance, an acquisition or our businesses. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These forward-looking statements are not guarantees and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results could differ materially and adversely from these statements.

Some important factors that could cause our actual results to differ from our expectations in any forward-looking statements include those risks discussed in Item 1A. "Risk Factors" of our Annual Report on Form 10-K for 2014.

This Form 10-Q should be read in conjunction with the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for 2014.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We consider our material area of market risk exposure to be exchange rate risk. Quantitative and qualitative disclosures about exchange rate risk are included in the "Other Information" section of Management's Discussion and Analysis of Financial Condition in Item 7 of our Annual Report on Form 10-K for 2014 under the caption "Hedging and Derivative Instruments" on page 17. There have been no material changes from the information provided therein.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures – An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures at March 31, 2015 was carried out under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Vice President, Chief Financial Officer (the Certifying Officers). Based on that evaluation, the Certifying Officers concluded that our disclosure controls and procedures are effective.

Changes in Internal Controls Over Financial Reporting – There was no change to our internal control over financial reporting during the three-month period ended March 31, 2015 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION**ITEM 2. UNREGISTERED SALES OF EQUITY
SECURITIES AND USE OF PROCEEDS.**

(a) We issued 29,850 shares of our common stock in the three-month period March 31, 2015 as performance incentive awards to certain employees. These shares were not registered under the Securities Act of 1933 based on the conclusion that the awards would not be events of sale within the meaning of Section 2(a)(3) of the Act.

(c) In March of 2015 we announced that our Board of Directors had authorized us to purchase up to \$2,000 of our common stock (the 2015 Repurchase program). In 2012 and 2011, we announced that our Board of Directors had authorized us to purchase up to \$405 and \$500, respectively, of our common stock (the 2012 and 2011 Repurchase Programs, respectively). The manner, timing and amount of purchases is determined by management based on an evaluation of market conditions, stock price and other factors and is subject to regulatory considerations. Purchases are to be made from time to time in the open market, in privately negotiated transactions or otherwise.

During the three-month period March 31, 2015 we repurchased 1.4 million shares at a cost of \$130 under the 2011 Repurchase Program. At March 31, 2015, the maximum dollar value of shares that may yet be purchased was \$2,000 under the 2015 Repurchase Program, \$405 under the 2012 Repurchase program and \$48 under the 2011 Repurchase Program. At March 31, 2015 the maximum dollar value of shares that may be purchased under the authorized Repurchase Programs was \$2,453.

A summary of the activity pursuant to the Repurchase Programs for the three-month period March 31, 2015 is:

| Period | Total Number of Shares (in millions) | | | |
|------------------|--------------------------------------|---|------------------------------|--|
| | Purchased | Purchased as Part of Public Announced Plans | Average Price Paid Per Share | Maximum Dollar Value of Shares that may yet be Purchased Under the Plans |
| Jan 1 - 31, 2015 | — | — | \$— | \$2,583 |
| Feb 1 - 28, 2015 | — | — | — | 2,583 |
| Mar 1 - 31, 2015 | 1.4 | 1.4 | 92.40 | \$2,453 |
| Total | 1.4 | 1.4 | \$92.40 | |

ITEM 5. OTHER INFORMATION.**Submission Of Matters To A Vote Of Security Holders.**

At our Annual Meeting of Shareholders held on April 29, 2015, shareholders voted on three proposals and cast votes as follows:

1 Election of directors:

| Name | Shares | |
|-------------------------|-------------|-----------|
| | For | Against |
| Howard E. Cox, Jr. | 301,499,022 | 5,159,271 |
| Srikant M. Datar, Ph.D. | 301,937,158 | 4,795,180 |
| Roch Doliveux, DVM | 306,287,266 | 470,773 |
| Louise L. Francesconi | 297,582,644 | 9,179,065 |
| Allan C. Golston | 302,667,836 | 4,043,937 |
| Kevin A. Lobo | 298,958,215 | 7,287,347 |

Edgar Filing: STRYKER CORP - Form 10-Q

| | | |
|----------------------|-------------|-----------|
| William U. Parfet | 303,070,737 | 3,705,985 |
| Andrew K. Silvernail | 300,626,708 | 5,314,185 |
| Ronda E. Stryker | 304,473,559 | 2,326,586 |

| Name | Shares | Broker Non-Votes |
|-------------------------|-----------|------------------|
| | Abstain | |
| Howard E. Cox, Jr. | 796,446 | 34,419,327 |
| Srikant M. Datar, Ph.D. | 722,401 | 34,419,327 |
| Roch Doliveux, DVM | 696,700 | 34,419,327 |
| Louise L. Francesconi | 693,030 | 34,419,327 |
| Allan C. Golston | 742,966 | 34,419,327 |
| Kevin A. Lobo | 1,209,177 | 34,419,327 |
| William U. Parfet | 678,017 | 34,419,327 |
| Andrew K. Silvernail | 1,513,846 | 34,419,327 |
| Ronda E. Stryker | 654,594 | 34,419,327 |

Ratification of the appointment of Ernst & Young LLP

2 as the Company's independent registered public accounting firm for 2015:

Shares

| For | Against | Abstain |
|-------------|------------|---------|
| 307,023,195 | 34,149,889 | 700,982 |

3 Advisory vote to approve the Company's named executive officer compensation:

Shares

| For | Against | Abstain | Broker Non-Votes |
|-------------|-----------|-----------|------------------|
| 295,737,946 | 9,605,573 | 2,111,220 | 34,419,327 |

13

Dollar amounts in millions except per share amounts or as otherwise specified

STRYKER CORPORATION

2015 First Quarter Form 10-Q

ITEM 6. EXHIBITS

(a)

- 31(i)* Certification of Principal Executive Officer of Stryker Corporation pursuant to Rule 13a-14(a)
 - 31(ii)* Certification of Principal Financial Officer of Stryker Corporation pursuant to Rule 13a-14(a)
 - 32(i)* Certification by Principal Executive Officer of Stryker Corporation pursuant to 18 U.S.C. Section 1350
 - 32(ii)* Certification by Principal Financial Officer of Stryker Corporation pursuant to 18 U.S.C. Section 1350
 - 101.INS XBRL Instance Document
 - 101.SCH XBRL Schema Document
 - 101.CAL XBRL Calculation Linkbase Document
 - 101.DEF XBRL Definition Linkbase Document
 - 101.LAB XBRL Label Linkbase Document
 - 101.PRE XBRL Presentation Linkbase Document
- * Furnished with this Form 10-Q

14

STRYKER CORPORATION

2015 First Quarter Form 10-Q

SIGNATURES

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

STRYKER CORPORATION
(Registrant)

April 30, 2015
Date

/s/ KEVIN A. LOBO
Kevin A. Lobo, Chairman and Chief Executive Officer

April 30, 2015
Date

/s/ WILLIAM R. JELLISON
William R. Jellison, Vice President, Chief Financial
Officer

STRYKER CORPORATION

2015 First Quarter Form 10-Q

EXHIBIT INDEX

| | |
|-------------|---|
| Exhibit 31 | Rule 13a-14(a) Certifications |
| (i)* | Certification of Principal Executive Officer of Stryker Corporation |
| (ii)* | Certification of Principal Financial Officer of Stryker Corporation |
| Exhibit 32 | 18 U.S.C. Section 1350 Certifications |
| (i)* | Certification of Principal Executive Officer of Stryker Corporation |
| (ii)* | Certification of Principal Financial Officer of Stryker Corporation |
| Exhibit 101 | XBRL (Extensible Business Reporting Language) Documents |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Schema Document |
| 101.CAL | XBRL Calculation Linkbase Document |
| 101.DEF | XBRL Definition Linkbase Document |
| 101.LAB | XBRL Label Linkbase Document |
| 101.PRE | XBRL Presentation Linkbase Document |

* Furnished with this Form 10-Q