

STRYKER CORP  
Form 10-Q  
November 04, 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 September 30, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-9165

**STRYKER CORPORATION**

(Exact name of registrant as specified in its charter)

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**Michigan**  
(State or other jurisdiction of  
incorporation or organization)

**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 and 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.

Large accelerated filer

Accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

397,120,134 shares of Common Stock, \$.10 par value, as of October 31, 2010.

**PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS  
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

Stryker Corporation and Subsidiaries

*(in millions, except per share amounts)*

	September 30 2010	December 31 2009
<b>ASSETS</b>		
<i>Current Assets</i>		
Cash and cash equivalents	\$925.6	\$658.7
Marketable securities	3,589.0	2,296.1
Accounts receivable, less allowance of \$69.7 (\$66.3 in 2009)	1,158.6	1,147.1
Inventories	1,035.3	943.0
Deferred income taxes	617.2	602.2
Prepaid expenses and other current assets	218.0	204.1
<b>Total current assets</b>	<b>7,543.7</b>	<b>5,851.2</b>
<i>Property, Plant and Equipment, less allowance for depreciation of \$1,077.2 (\$1,016.1 in 2009)</i>	<i>931.6</i>	<i>947.6</i>
<i>Other Assets</i>		
Goodwill	951.0	956.8
Other intangibles, less accumulated amortization of \$440.1 (\$421.0 in 2009)	653.5	634.7
Loaner instrumentation, less accumulated amortization of \$670.9 (\$771.3 in 2009)	297.0	285.4
Deferred income taxes	250.7	258.9
Other	144.4	136.7
<b>Total assets</b>	<b>\$10,771.9</b>	<b>\$9,071.3</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<i>Current Liabilities</i>		
Accounts payable	\$247.8	\$200.2
Accrued compensation	345.2	354.1
Income taxes	60.2	134.7
Dividend payable	59.6	59.7
Accrued expenses and other liabilities	674.1	674.3
Current maturities of debt	19.1	18.0
<b>Total current liabilities</b>	<b>1,406.0</b>	<b>1,441.0</b>
<i>Long-Term Debt, excluding current maturities</i>	<i>996.4</i>	<i>-</i>
<i>Other Liabilities</i>	<i>1,063.5</i>	<i>1,035.2</i>
<i>Shareholders Equity</i>		
Common stock, \$0.10 par value:		
Authorized - 1,000.0 shares		
Outstanding - 397.0 shares (397.9 in 2009)	39.7	39.8
Additional paid-in capital	965.3	899.9
Retained earnings	6,091.2	5,397.4
Accumulated other comprehensive gain	209.8	258.0

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Total shareholders' equity	7,306.0	6,595.1
Total liabilities & shareholders' equity	\$10,771.9	\$9,071.3

*See accompanying notes to Condensed Consolidated Financial Statements.*

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

Stryker Corporation and Subsidiaries

*(in millions, except per share amounts)*

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Net sales	\$1,767.6	\$1,653.3	\$5,324.9	\$4,888.9
Cost of sales	540.8	538.7	1,661.5	1,590.5
Gross profit	1,226.8	1,114.6	3,663.4	3,298.4
Research, development and engineering expenses	98.6	83.7	283.2	246.7
Selling, general and administrative expenses	643.3	643.9	1,972.9	1,877.6
Intangibles amortization	14.4	8.6	42.3	26.7
Restructuring charges	-	67.0	-	67.0
Total operating expenses	756.3	803.2	2,298.4	2,218.0
Operating income	470.5	311.4	1,365.0	1,080.4
Other income (expense)	(8.6)	3.0	(14.7)	20.4
Earnings before income taxes	461.9	314.4	1,350.3	1,100.8
Income taxes	124.2	85.4	371.9	299.4
Net earnings	\$337.7	\$229.0	\$978.4	\$801.4
Net earnings per share:				
Basic	\$0.85	\$0.58	\$2.46	\$2.02
Diluted	\$0.85	\$0.57	\$2.45	\$2.01
Weighted-average outstanding shares for the period:				
Basic	397.0	397.6	397.0	397.2
Diluted	398.1	399.6	399.1	399.1

*See accompanying notes to Condensed Consolidated Financial Statements.*

## CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Unaudited)

Stryker Corporation and Subsidiaries

*(in millions, except per share amounts)*

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Total
Balances at January 1, 2010	\$39.8	\$899.9	\$5,397.4	\$258.0	\$6,595.1
Net earnings			978.4		978.4
Unrealized gains on securities, net of income taxes				0.8	0.8
Unfunded pension losses, net of income taxes				(0.2)	(0.2)
Foreign currency translation adjustments				(48.8)	(48.8)
Comprehensive earnings for the nine months ended September 30, 2010					930.2
Issuance of 1.3 shares of common stock under stock option and benefit plans, including \$10.9 excess income tax benefit	0.1	16.8			16.9
Repurchase and retirement of 2.1 shares of common stock	(0.2)	(5.0)	(105.9)		(111.1)
Share-based compensation		53.6			53.6
Cash dividends declared of \$0.45 per share of common stock			(178.7)		(178.7)
Balances at September 30, 2010	\$39.7	\$965.3	\$6,091.2	\$209.8	\$7,306.0

*See accompanying notes to Condensed Consolidated Financial Statements.*

In February 2010 Stryker Corporation (the Company) declared a quarterly dividend of \$0.15 per share payable April 30, 2010 to shareholders of record at the close of business on March 30, 2010. In June 2010 the Company declared a quarterly dividend of \$0.15 per share payable July 30, 2010 to shareholders of record at the close of business on June 30, 2010. In September 2010 the Company declared a quarterly dividend of \$0.15 per share payable October 29, 2010 to shareholders of record at the close of business on September 30, 2010.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Stryker Corporation and Subsidiaries

(in millions)

	Three Months Ended September 30			Nine Months Ended September 30				
	2010	2009	2010	2009				
<i>Operating Activities</i>								
Net earnings	\$337.7	\$229.0	\$978.4			\$801.4		
Adjustments to reconcile net earnings from operations to net cash provided by operating activities:								
Depreciation	39.7	41.1	119.6			117.9		
Amortization	61.4	55.5	179.3			162.6		
Share-based compensation	17.5	15.3	53.6			47.0		
Income tax benefit from exercise of stock options	0.9	2.0	20.3			9.1		
Excess income tax benefit from exercise of stock options	-	(0.8)	(10.9)			(5.0)		
Restructuring charges	-	67.0	-			67.0		
Payment of restructuring charges	(0.1)	(4.7)	(8.3)			(14.1)		
(Gain) loss on sale of property, plant and equipment	(24.0)	0.7	(23.4)			1.2		
Other	2.5	2.6	7.1			8.2		
Changes in operating assets and liabilities, net of effects of acquisitions:								
Accounts receivable	(12.9)	9.4	(18.6)			50.4		
Inventories	(56.9)	26.0	(117.7)			(4.9)		
Loaner instrumentation	(45.1)	(46.5)	(148.3)			(140.1)		
Accounts payable	33.8	(11.0)	53.5			(73.8)		
Accrued expenses and other liabilities	58.0	90.6	(6.4)					
Navigator	12-02-08	1,000	1.1700		Entity	Trade	Shares	Price/Share (\$)
	12-03-08	41,000	1.1045		Date	(#)		
	12-03-08	75,000	1.1074					
	12-04-08	118,900	1.0365					
	12-05-08	50,500	1.0044					
	12-08-08	30,100	1.0884					
	12-08-08	25,000	1.0600					

Entity	Trade Date	Shares (#)	Price/Share (\$)
Navigator	12-10-08	42,100	1.0370
	12-11-08	103,000	1.0625
	12-11-08	300,000	1.0800
	12-12-08	94,000	1.0051
	12-15-08	30,700	1.0637
	12-16-08	76,000	1.0402
	12-17-08	64,500	1.0494
	12-17-08	50,900	1.0700
	12-18-08	53,900	1.0375
	12-18-08	3,500	1.0700
	12-19-08	57,800	1.0164
	12-23-08	110,000	1.0227
	12-29-08	550,000	0.9800

Item 7. Material to Be Filed as Exhibits

No. Exhibit

6. Joint Filing Undertaking.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: December 31, 2008

STEELHEAD PARTNERS, LLC

By: /s/ James Michael Johnston  
James Michael Johnston  
Its Member-Manager

STEELHEAD NAVIGATOR MASTER, L.P.  
By: Steelhead Partners, LLC, its Investment  
Manager

By: /s/ James Michael Johnston  
James Michael Johnston  
Its Member-Manager

STEELHEAD OFFSHORE PARTNERS,  
LLC..  
By: Steelhead Partners, LLC, its General  
Partner

By: /s/ James Michael Johnston  
James Michael Johnston  
Its Director

JAMES MICHAEL JOHNSTON

/s/ James Michael Johnston  
James Michael Johnston

BRIAN KATZ KLEIN

/s/ Brian Katz Klein  
Brian Katz Klein

EXHIBIT 6

JOINT FILING UNDERTAKING

The undersigned, being authorized thereunto, hereby execute this agreement as an exhibit to this Schedule 13D to evidence the agreement of the below-named parties, in accordance with rules promulgated pursuant to the Securities Exchange Act of 1934, to file this Schedule 13D, as it may be amended, jointly on behalf of each of such parties.

Dated: December 31, 2008

STEELHEAD PARTNERS, LLC

By: /s/ James Michael Johnston  
James Michael Johnston  
Its Member-Manager

STEELHEAD NAVIGATOR MASTER, L.P.  
By: Steelhead Partners, LLC, its Investment  
Manager

By: /s/ James Michael Johnston  
James Michael Johnston  
Its Member-Manager

STEELHEAD OFFSHORE PARTNERS,  
LLC..  
By: Steelhead Partners, LLC, its General  
Partner

By: /s/ James Michael Johnston  
James Michael Johnston  
Its Director

JAMES MICHAEL JOHNSTON

/s/ James Michael Johnston  
James Michael Johnston

BRIAN KATZ KLEIN

/s/ Brian Katz Klein  
Brian Katz Klein



