

STRYKER CORP
Form 10-Q
May 05, 2008

**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, 2008

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)

38-1239739

Michigan

(State or other jurisdiction of
incorporation or organization)

(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 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. (Check one):

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:

411,793,508 shares of Common Stock, \$.10 par value, as of March 31, 2008.

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

Stryker Corporation and Subsidiaries

(in millions, except per share amounts)

| | March 31 2008 | December 31 2007 |
|--|------------------|---------------------|
| ASSETS | | |
| <i>Current Assets</i> | | |
| Cash and cash equivalents | \$423.5 | \$290.5 |
| Marketable securities | 1,939.3 | 2,120.3 |
| Accounts receivable, less allowance of \$48.7 (\$44.5 in 2007) | 1,094.6 | 1,030.7 |
| Inventories | 894.6 | 796.2 |
| Deferred income taxes | 562.0 | 534.4 |
| Prepaid expenses and other current assets | 149.9 | 132.8 |
| Total current assets | 5,063.9 | 4,904.9 |
| <i>Property, Plant and Equipment, less allowance for depreciation of \$868.7 (\$794.3 in 2007)</i> | 1,023.4 | 991.6 |
| <i>Other Assets</i> | | |
| Goodwill | 548.8 | 527.4 |
| Other intangibles, less accumulated amortization of \$382.5 (\$356.2 in 2007) | 408.8 | 398.1 |
| Loaner instrumentation, less accumulated amortization of \$757.4 (\$708.7 in 2007) | 307.7 | 293.1 |
| Deferred income taxes | 175.7 | 171.8 |
| Other | 225.8 | 67.1 |
| | 1,666.8 | 1,457.5 |
| | \$7,754.1 | \$7,354.0 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| <i>Current Liabilities</i> | | |
| Accounts payable | \$277.7 | \$265.5 |
| Accrued compensation | 206.4 | 313.7 |
| Income taxes | 137.4 | 58.7 |
| Dividend payable | - | 135.6 |
| Accrued expenses and other liabilities | 510.0 | 542.7 |
| Current maturities of debt | 17.7 | 16.8 |
| Total current liabilities | 1,149.2 | 1,333.0 |
| <i>Other Liabilities</i> | 672.1 | 642.5 |
| <i>Shareholders' Equity</i> | | |
| Common stock, \$.10 par value: | | |
| Authorized - 1,000.0 shares | | |
| Outstanding - 411.8 shares (411.0 in 2007) | 41.2 | 41.1 |
| Additional paid-in capital | 756.2 | 711.9 |

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| | | |
|--------------------------------------|-----------|-----------|
| Retained earnings | 4,655.2 | 4,364.7 |
| Accumulated other comprehensive gain | 480.2 | 260.8 |
| Total shareholders' equity | 5,932.8 | 5,378.5 |
| | \$7,754.1 | \$7,354.0 |

See accompanying notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

Stryker Corporation and Subsidiaries

(in millions, except per share amounts)

| | Three Months Ended | |
|---|--------------------|-----------|
| | March 31 | |
| | 2008 | 2007 |
| Net sales | \$1,634.4 | \$1,425.5 |
| Cost of sales | 500.5 | 439.4 |
| Gross profit | 1,133.9 | 986.1 |
| Research, development and engineering expenses | 85.1 | 84.6 |
| Selling, general and administrative expenses | 654.5 | 568.1 |
| Intangibles amortization | 10.6 | 11.2 |
| | 750.2 | 663.9 |
| Operating income | 383.7 | 322.2 |
| Other income (expense) | 20.3 | 14.2 |
| Earnings from continuing operations before income taxes | 404.0 | 336.4 |
| Income taxes | 113.5 | 94.6 |
| Net earnings from continuing operations | 290.5 | 241.8 |
| Net earnings from discontinued operations | - | 1.7 |
| Net earnings | \$290.5 | \$243.5 |
| Basic net earnings per share: | | |
| Net earnings from continuing operations | \$0.71 | \$0.59 |
| Net earnings from discontinued operations | - | - |
| Basic net earnings per share | \$0.71 | \$0.60 |
| Diluted net earnings per share: | | |
| Net earnings from continuing operations | \$0.70 | \$0.58 |
| Net earnings from discontinued operations | - | - |
| Diluted net earnings per share | \$0.70 | \$0.59 |
| Weighted-average outstanding shares for the period: | | |
| Basic | 411.4 | 408.6 |
| Diluted | 417.9 | 416.0 |

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, 2008 | \$41.1 | \$711.9 | \$4,364.7 | \$260.8 | \$5,378.5 |
| Net earnings | | | 290.5 | | 290.5 |
| Unrealized losses on securities, net of income taxes | | | | (1.2) | (1.2) |
| Unfunded pension losses, net of income taxes | | | | (1.2) | (1.2) |
| Foreign currency translation adjustments | | | | 221.8 | 221.8 |
| Comprehensive earnings for the three months ended March 31, 2008 | | | | | 509.9 |
| Issuance of 0.8 shares of common stock under stock option and benefit plans, including \$5.6 excess income tax benefit | 0.1 | 27.2 | | | 27.3 |
| Share-based compensation | | 17.1 | | | 17.1 |
| Balances at March 31, 2008 | \$41.2 | \$756.2 | \$4,655.2 | \$480.2 | \$5,932.8 |

See accompanying notes to Condensed Consolidated Financial Statements.

In 2007, the Company declared a cash dividend of thirty-three cents per share to shareholders of record on December 31, 2007, payable on January 31, 2008. No cash dividends have been declared during 2008.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Stryker Corporation and Subsidiaries

(in millions)

| | Three Months Ended | |
|--|--------------------|-----------|
| | March 31 | |
| | 2008 | 2007 |
| <i>Operating Activities</i> | | |
| Net earnings | \$290.5 | \$243.5 |
| Less: Net earnings from discontinued operations | - | 1.7 |
| Net earnings from continuing operations | 290.5 | 241.8 |
| Adjustments to reconcile net earnings from continuing operations to net cash provided by operating activities: | | |
| Depreciation | 38.7 | 31.9 |
| Amortization | 59.5 | 55.2 |
| Share-based compensation | 17.1 | 15.9 |
| Income tax benefit from exercise of stock options | 7.9 | 17.2 |
| Excess income tax benefit from exercise of stock options | (5.6) | (14.7) |
| Other | 0.3 | 0.6 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | (16.2) | (25.0) |
| Inventories | (67.0) | (29.8) |
| Loaner instrumentation | (53.2) | (51.3) |
| Accounts payable | 3.5 | (28.4) |
| Accrued expenses and other liabilities | (154.7) | (96.8) |
| Income taxes | 67.1 | 46.1 |
| Other | 2.9 | (11.2) |
| Net cash provided by discontinued operations | - | 1.2 |
| Net cash provided by operating activities | 190.8 | 152.7 |
| <i>Investing Activities</i> | | |
| Acquisitions, net of cash acquired | (6.2) | (5.7) |
| Purchases of marketable securities | (6,083.2) | (1,800.2) |
| Proceeds from sales of marketable securities | 6,174.8 | 1,628.8 |
| Purchases of property, plant and equipment | (30.9) | (40.8) |
| Proceeds from sales of property, plant and equipment | 0.1 | 0.2 |
| Net cash used by discontinued operations | - | (1.2) |
| Net cash provided by (used in) investing activities | 54.6 | (218.9) |
| <i>Financing Activities</i> | | |
| Proceeds from borrowings | 3.2 | 19.0 |