

STRYKER CORP
Form 10-Q
August 09, 2007

**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 June 30, 2007

Commission file number: 0-9165

STRYKER CORPORATION

(Exact name of registrant as specified in its charter)

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.

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YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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:

409,927,028 shares of Common Stock, \$.10 par value, as of July 31, 2007.

PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

Stryker Corporation and Subsidiaries

(in millions, except per share amounts)

	June 30 2007	December 31 2006
ASSETS		
<i>Current Assets</i>		
Cash and cash equivalents	\$170.0	\$416.6
Marketable securities	1,610.2	998.2
Accounts receivable, less allowance of \$42.0 (\$41.8 in 2006)	940.5	867.2
Inventories	733.4	677.6
Deferred income taxes	476.0	417.2
Prepaid expenses and other current assets	132.2	113.3
Current assets of discontinued operations	--	44.2
Total current assets	4,062.3	3,534.3
<i>Property, Plant and Equipment, less allowance for depreciation of \$721.6 (\$659.7 in 2006)</i>	932.7	914.9
<i>Other Assets</i>		
Goodwill	513.0	511.0
Other intangibles, less accumulated amortization of \$239.3 (\$221.1 in 2006)	392.3	403.8
Loaner instrumentation, less accumulated amortization of \$623.2 (\$564.6 in 2006)	299.7	287.7
Deferred income taxes	165.2	118.6
Other	54.7	44.5
Noncurrent assets of discontinued operations	--	59.0
	1,424.9	1,424.6
	\$6,419.9	\$5,873.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>Current Liabilities</i>		
Accounts payable	\$231.2	\$247.9
Accrued compensation	218.1	272.0
Income taxes	69.3	208.2
Dividend payable	--	89.7
Accrued expenses and other liabilities	503.9	496.4
Current maturities of long-term debt	17.4	14.8
Current liabilities of discontinued operations	--	22.5
Total current liabilities	1,039.9	1,351.5
<i>Other Liabilities</i>	578.6	325.7
<i>Other Liabilities of Discontinued Operations</i>	--	5.6
<i>Shareholders' Equity</i>		
Common stock, \$.10 par value:		
Authorized - 1,000.0 shares		
Outstanding - 409.7 shares (407.9 in 2006)	41.0	40.8
Additional paid-in capital	651.3	569.1
Retained earnings	3,995.5	3,490.5
Accumulated other comprehensive gain	113.6	90.6

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Total shareholders' equity

4,801.4	4,191.0
\$6,419.9	\$5,873.8

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		Six Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
Net sales	\$1,463.7	\$1,261.8	\$2,889.2	\$2,515.7
Cost of sales	444.3	393.9	883.7	787.3
Gross profit	1,019.4	867.9	2,005.5	1,728.4
Research, development and engineering expenses	92.1	75.9	176.7	153.0
Selling, general and administrative expenses	581.6	493.0	1,149.7	994.7
Intangibles amortization	11.0	10.1	22.2	20.3
Intangible asset impairment	19.8	--	19.8	--
Purchased in-process research and development	--	--	--	52.7
	704.5	579.0	1,368.4	1,220.7
Operating income	314.9	288.9	637.1	507.7
Other income (expense)	16.9	4.9	31.1	10.3
Earnings before income taxes	331.8	293.8	668.2	518.0
Income taxes	91.7	81.7	186.3	160.3
Net earnings from continuing operations	240.1	212.1	481.9	357.7
Net earnings from discontinued operations	3.3	1.8	5.0	3.7
Net gain on sale of discontinued operations	25.7	--	25.7	--
Net earnings	\$269.1	\$213.9	\$512.6	\$361.4
Basic net earnings per share:				
Net earnings from continuing operations	\$0.59	\$0.52	\$1.18	\$0.88
Net earnings from discontinued operations	\$0.01	--	\$0.01	\$0.01
Net gain on sale of discontinued operations	\$0.06	--	\$0.06	--
Basic net earnings per share	\$0.66	\$0.53	\$1.25	\$0.89
Diluted net earnings per share:				
Net earnings from continuing operations	\$0.58	\$0.52	\$1.16	\$0.87
Net earnings from discontinued operations	\$0.01	--	\$0.01	\$0.01
Net gain on sale of discontinued operations	\$0.06	--	\$0.06	--
Diluted net earnings per share	\$0.65	\$0.52	\$1.23	\$0.88
Weighted-average outstanding shares for the period:				
Basic	409.4	406.4	409.0	406.0
Diluted	416.9	410.7	416.5	411.0

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, 2007	\$40.8	\$569.1	\$3,490.5	\$90.6	\$4,191.0
Net earnings			512.6		512.6
Unrealized losses on securities				(0.9)	(0.9)
Unfunded pension losses				(0.2)	(0.2)
Foreign currency translation adjustments				24.1	<u>24.1</u>
Comprehensive earnings for the six months ended June 30, 2007					535.6
Issuance of 1.8 shares of common stock under stock option and benefit plans, including \$22.8 excess income tax benefit	0.2	49.8			50.0
Share-based compensation		32.4			32.4
Adjustment to adopt FASB Interpretation No. 48, net of \$4.2 income tax benefit			(7.6)		(7.6)
Balances at June 30, 2007	\$41.0	\$651.3	\$3,995.5	\$113.6	\$4,801.4

See accompanying notes to condensed consolidated financial statements.

In 2006, the Company declared a cash dividend of twenty-two cents per share to shareholders of record on December 29, 2006, payable on January 31, 2007. No cash dividends have been declared during 2007.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Stryker Corporation and Subsidiaries

(in millions)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
<i>Operating Activities</i>				
Net earnings from continuing operations	\$240.1	\$212.1	\$481.9	\$357.7
Adjustments to reconcile net earnings from continuing operations to net cash provided by operating activities:				
Depreciation	32.8	28.7	64.7	55.8
Amortization	57.5	51.1	112.7	99.9
Intangible asset impairment	19.8	--	19.8	--
Share-based compensation	15.4	14.3	31.3	29.3
Income tax benefit from exercise of stock options	10.2	4.7	27.4	16.6
Excess income tax benefit from exercise of stock options	(8.1)	(3.8)	(22.8)	(13.7)
Purchased in-process research and development	--	--	--	52.7
Gain on sale of discontinued operations	(40.7)			