STRYKER CORP
Form 10-Q
October 23, 2014

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

FORM 10-Q
(Mark one)

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

For the quarterly period ended September 30, 2014

OR

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

Commission file number: 0-9165
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	49002
(Address of principal executive offices)	(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 [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] 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	[X]	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 [X]

Number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 378,320,513 shares of Common Stock, $0.10 par value, as of September 30, 2014.

PART I. - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Net sales	$2,389	$2,151	$7,057	$6,553
Cost of sales	822	682	2,399	2,125
Gross profit	1,567	1,469	4,658	4,428
Research, development and engineering expenses	153	136	461	397
Selling, general and administrative expenses	910	1,136	3,263	3,067
Intangible asset amortization	50	34	142	102
Restructuring charges	4	13	14	36
Total operating expenses	1,117	1,319	3,880	3,602
Operating income	450	150	778	826
Other income (expense), net	(25)	(13)	(79)	(45)
Earnings before income taxes	425	137	699	781
Income taxes	368	34	444	161
Net earnings	$57	$103	$255	$620
Net earnings per share of common stock:				
Basic net earnings per share of common stock	$0.16	$0.27	$0.68	$1.64
Diluted net earnings per share of common stock	$0.16	$0.27	$0.67	$1.62
Weighted-average shares outstanding—in millions:				
Basic	378.4	378.3	378.5	378.7
Net effect of dilutive employee stock options	4.1	3.4	4.2	3.1
Diluted	382.5	381.7	382.7	381.8
Anti-dilutive shares excluded from the calculation of net effect of dilutive employee stock options	—	—	—	1.9

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Net earnings	$57	$103	$255	$620
Other comprehensive income (loss), net of tax				
Marketable Securities	(3)	3	4	(3)
Pension Plans	5	(3)	5	(1)
Hedges	5	—	(7)	—
Financial Statement Translation	(312)	115	(308)	21
Total other comprehensive income (loss), net of tax	(305)	115	(306)	17
Comprehensive (loss) income	$(248)	$218	$(51)	$637

See accompanying notes to Consolidated Financial Statements.

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

CONSOLIDATED BALANCE SHEETS (Unaudited)

	September 30 2014	December 31 2013
ASSETS		
Current assets		
Cash and cash equivalents	$1,356	$1,339
Marketable securities	3,321	2,641
Accounts receivable, less allowance of $66 ($72 in 2013)	1,529	1,518
Inventories		
Materials and supplies	257	227
Work in process	106	85
Finished goods	1,303	1,110
Total inventories	1,666	1,422
Deferred income taxes	987	880
Prepaid expenses and other current assets	467	535
Total current assets	9,326	8,335
Property, plant and equipment		
Land, buildings and improvements	676	686
Machinery and equipment	1,926	1,811
Total property, plant and equipment	2,602	2,497
Less allowance for depreciation	1,498	1,416
Net property, plant and equipment	1,104	1,081
Other assets		
Goodwill	4,257	3,844
Other intangibles, net	2,108	1,989
Other	720	494
Total assets	$17,515	$15,743
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$335	$314
Accrued compensation	485	535
Income taxes	374	131
Dividend payable	115	115
Accrued recall expenses	1,339	772
Accrued expenses and other liabilities	832	765
Current maturities of debt	731	25
Total current liabilities	4,211	2,657
Long-term debt, excluding current maturities	3,231	2,739
Other liabilities	1,449	1,300
Shareholders' equity		
Common stock, $0.10 par value:		
Authorized: 1 billion shares, outstanding: 378 million shares (378 million in 2013)	38	38
Additional paid-in capital	1,230	1,160
Retained earnings	7,430	7,617
Accumulated other comprehensive income	(74)	232
Total shareholders' equity	8,624	9,047
Total liabilities & shareholders' equity	$17,515	$15,743

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances at December 31, 2013	$ 38	$ 1,160	$ 7,617	$ 232	$ 9,047
Net earnings			255		255
Other comprehensive loss				(306)	(306)
Issuance of 1.8 million shares of common stock under stock option and benefit plans, including $6 excess income tax benefit		16			16
Repurchase and retirement of 1.3 million shares of common stock		(4)	(96)		(100)
Share-based compensation		58			58
Cash dividends declared of $0.915 per share of common stock			(346)		(346)
Balances at September 30, 2014	$ 38	$ 1,230	$ 7,430	$ (74)	$ 8,624

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Operating activities				
Net earnings	$ 57	$ 103	$ 255	$ 620
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation	47	42	140	123
Amortization of intangible assets	50	34	142	102
Share-based compensation	17	19	58	57
Restructuring charges	4	14	14	38
Sale of inventory stepped up to fair value at acquisition	10	8	24	16
Recall accruals	29	313	649	523
Changes in operating assets and liabilities, net of effects of acquisitions:				
Accounts receivable	(65)	57	(12)	46
Inventories	(97)	(43)	(217)	(106)
Accounts payable	4	(1)	15	(31)
Accrued expenses and other liabilities	179	68	37	15
Income taxes	306	34	169	(116)
Other	(6)	(26)	(167)	(73)
Net cash provided by operating activities	535	622	1,107	1,214
Investing activities				
Acquisitions, net of cash acquired	(368)	(24)	(825)	(686)
Purchases of marketable securities	(1,038)	(1,160)	(3,635)	(3,777)
Proceeds from sales of marketable securities	1,030	859	2,842	2,676
Purchases of property, plant and equipment	(48)	(43)	(172)	(139)

Net cash used in investing activities	(424)	(368)	(1,790)	(1,926)
Financing activities				
Proceeds from borrowings	395	110	2,208	1,272
Payments on borrowings	(293)	(107)	(1,013)	(258)
Dividends paid	(115)	(100)	(346)	(301)
Repurchase and retirement of common stock	(40)	(2)	(100)	(252)
Other	(14)	(6)	(42)	(8)
Net cash (used in) provided by financing activities	(67)	(105)	707	453
Effect of exchange rate changes on cash and cash equivalents	(7)	(10)	(7)	(26)
Change in cash and cash equivalents	$37	$139	$17	$(285)

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 the year ended December 31, 2013. 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. Certain prior year amounts in our Consolidated Statements of Cash Flows and our Segment Information in Note 11 have been reclassified to conform with the presentation used in 2014.

Recently Issued Accounting Pronouncements

No new accounting pronouncement issued or effective during the year had, or is expected to have, a material impact on the Consolidated Financial Statements.

NOTE 2 - FAIR VALUE MEASUREMENTS

Assets and liabilities measured at fair value:	Total		Level 1		Level 2		Level 3	
	September 2014	December 2013	September 2014	December 2013	September 2014	December 2013	September 2014	December 2013
Cash and cash equivalents	$1,356	$ 1,339	$1,356	$ 1,339	$—	$ —	$—	$ —
Available-for-sale marketable securities								
Corporate and asset-backed debt securities	1,614	1,177	—	—	1,614	1,177	—	—
Foreign government debt securities	828	845	—	—	828	845	—	—
United States agency debt securities	361	211	—	—	361	211	—	—
United States treasury debt securities	408	350	—	—	408	350	—	—
Certificates of deposit	103	53	—	—	103	53	—	—
Other	7	5	—	—	7	5	—	—
Total available-for-sale marketable securities	3,321	2,641	—	—	3,321	2,641	—	—
Trading marketable securities	77	72	77	72	—	—	—	—
Foreign currency exchange forward contracts	21	25	—	—	21	25	—	—
	$4,775	$ 4,077	$1,433	$ 1,411	$3,342	$ 2,666	$—	$ —
Liabilities:								
Deferred compensation arrangements	$77	$ 72	$77	$ 72	$—	$ —	$—	$ —
Contingent consideration								
Beginning Balance							59	103
Losses included in earnings							—	(5)
Settlements							(14)	(39)
Balance at the end of the period	45	59	—	—	—	—	45	59
Interest rate swap	6	—	—	—	6	—	—	—
Foreign currency exchange forward contracts	23	2	—	—	23	2	—	—
	$151	$ 133	$77	$ 72	$29	$ 2	$45	$ 59

Summary of marketable securities:	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Estimated Fair Value	
	September	December	September	December	September	December	September	December

	2014	2013	2014	2013	2014	2013	2014	2013
Available-for-sale marketable securities:								
Corporate and asset-backed debt securities	$1,611	$ 1,177	$4	$ 1	$(1)	$(1)	$1,614	$ 1,177
Foreign government debt securities	826	846	2	—	—	(1)	828	845
United States agency debt securities	361	211	—	—	—	—	361	211
United States treasury debt securities	408	350	—	—	—	—	408	350
Certificates of deposit	103	53	—	—	—	—	103	53
Other	7	5	—	—	—	—	7	5
Total available-for-sale marketable securities	$3,316	$ 2,642	$6	$ 1	$(1)	$(2)	3,321	2,641
Trading marketable securities							77	72
Total marketable securities							$3,398	$ 2,713
Reported as:								
Current assets-marketable securities							$3,321	$ 2,641
Noncurrent assets-other							77	72
Available-for-sale marketable securities by contractual maturity:								
Due in one year or less	$532	$425					$532	$424
Due after one year through three years	2,468	1,989					2,473	1,989
Due after three years	316	228					316	228

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

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. 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 as the net present value of expected cash flows using 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. We remeasure this liability 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 any financial assets or liabilities from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

There were no significant transfers into or out of any level between December 31, 2013 and September 30, 2014.

The unrealized losses on available-for-sale marketable securities at September 30, 2014 were primarily caused by increases in yields as a result of the rise in government benchmark rates. 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 September 30, 2014.

The gross unrealized losses and fair value 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 September 30, 2014 are:

	Number of Investments	Fair Value	Unrealized Losses
Less than 12 months			
Corporate and Asset-Backed	225	$397	$1
Foreign Government	45	100	—
United States Agency	37	178	—
Other	86	312	—
	393	$987	$1
Total			
Corporate and Asset-Backed	233	$397	$1
Foreign Government	52	194	—
United States Agency	37	178	—
Other	87	312	—
	409	$1,081	$1

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 $10 and $7 for the three months ended September 30, 2014 and 2013, respectively, and $21 and $18 for the nine months ended September 30, 2014 and 2013, respectively, and is included in other income (expense).

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.

Cash Flow Hedges

During the period we did not change our hedging strategies or objectives from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013. 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
September 30, 2014			
Gross Notional Amount	$219	$ 3,155	$3,374
Maximum term in days			546
Fair Value			
Other Current Assets	$6	$ 14	$20
Other Assets - Noncurrent	1	—	1
Other Current Liabilities	1	22	23
	$6	$ (8)	$(2)
December 31, 2013			
Gross Notional Amount	$344	$ 2,000	$2,344
Maximum term in days			546
Fair Value			
Other Current Assets	$11	$ 10	$21
Other Assets - Noncurrent	1	3	4
Other Current Liabilities	1	1	2
	$11	$ 12	$23

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 were:

	Three Months		Nine Months	
Recorded in:	2014	2013	2014	2013
Cost of goods sold	$(1)	$—	$4	$—
Other income (expense)	(2)	—	(11)	(3)
Total	$(3)	$—	$(7)	$(3)

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

At September 30, 2014 and December 31, 2013, pretax gains on derivatives designated as hedges of $2 and $12, which are recorded in AOCI, are expected to be reclassified to earnings during the next twelve months. 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 period.

Fair Value Hedges

Interest rate derivative instruments designated as fair value hedges are being 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, the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount.

As of September 30, 2014, 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 September 30, 2014 was a realized loss of $6 which is recorded in other long-term liabilities with an offsetting realized gain of $6 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 and nine months ended September 30, 2014.

NOTE 4 - 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, intellectual property, and other matters. 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, for the resolution of these legal matters 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 projected by management, additional expense may be incurred, which could unfavorably affect our future financial position, results of operations and cash flows. 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 2010 we received a subpoena from the United States Department of Justice (DOJ) related to the sales and marketing of the OtisKnee device. The subpoena concerns allegations of violations of federal laws related to sales of a device not cleared by the United States Food and Drug Administration (FDA). We continue to discuss the settlement of this matter with the DOJ, but there can be no assurance

that we will reach a consensual resolution rather than seeking a resolution through the courts. We have recorded charges totaling $80 related to this matter.

In June 2012 we voluntarily recalled our Rejuvenate and ABG II modular-neck hip stems and terminated global distribution of these hip products. We notified healthcare professionals and regulatory bodies of this recall, which was taken due to potential risks associated with fretting and/or corrosion that may lead to adverse local tissue reactions. Product liability lawsuits relating to this voluntary recall have been filed against us. As previously announced, we intend to reimburse implanted patients for reasonable and customary costs of testing and treatment services, including any necessary revision surgeries. We continue to work with the medical community to evaluate the data and further understand this matter. The ultimate total cost with respect to this matter will depend on many factors that are difficult to predict and may vary materially based on the number of and actual costs of patients seeking testing and treatment services, the number of and actual costs of patients requiring revision surgeries, the number of and actual costs to settle lawsuits filed against us, and the amount of third-party insurance recoveries. Based on the information that has been received, the actuarially determined range of probable loss to resolve this matter is estimated to be approximately $1,425 to $2,290 before third-party insurance recoveries that may potentially be recorded. In the three months ended

September 30, 2014, we recorded charges to earnings of $25 representing the excess of the $1,425 minimum of the range over the previously recorded reserves. No contingent gain for third-party insurance recoveries was recorded as of September 30, 2014. As noted above, 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 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 rulings issued in August and September 2013, the trial judge upheld the February 2013 jury verdict in our favor, issued a permanent injunction barring Zimmer from making or selling infringing products, and ordered Zimmer to pay us at least $228. Zimmer is appealing this ruling and the ultimate resolution of this matter may differ materially. Accordingly, we have not recorded a contingent gain related to this matter.

For each of the following legal matters the final outcome is dependent on many variables and cannot be predicted. Accordingly, it is not possible at this time for us to estimate any material loss or range of losses. However, the ultimate cost to resolve these matters could have a material adverse effect on our financial position, results of operations and cash flows.

In April 2011 lawsuits brought by Hill-Rom Company, Inc. and affiliated entities (Hill-Rom) against us were filed in the United States District Court for the Western District of Wisconsin and the United States District Court for the Southern District of Indiana alleging infringement under United States patent laws with respect to certain patient handling equipment we manufactured and sold and seek damages and permanent injunctions. The Wisconsin lawsuit was subsequently transferred to the United States District Court in Indiana and we have entered into an agreement settling that lawsuit on terms as previously disclosed. The second lawsuit involves nine patents related to electrical network communications for hospital beds. The case has been stayed with respect to six of the patents that are currently under reexamination by the United States Patent Office. With respect to the three remaining patents, all of which have now expired, the Court of Appeals for the Federal Circuit reversed the trial court's grant of summary judgment in our favor and remanded the matter to the trial court for further proceedings. With respect to the three remaining patents, all of which have now expired, the Court of Appeals for the Federal Circuit reversed the trial court's grant of summary judgment in our favor and remanded the matter to the trial court for further proceedings. We filed a request with the United States Supreme Court asking that it vacate the Federal Court's decision. The district court has administratively closed the case until the Supreme Court resolves this request. The ultimate resolution of the entire second suit may have no relation to the resolution of the first suit and cannot be predicted; however, the result could have a material adverse effect on our financial position, results of operations and cash flows.

In 2010 we received a subpoena from the DOJ related to sales and marketing and regulatory matters related to the Stryker PainPump. We have received requests for certain documents in connection with this investigation. The investigation is ongoing and we are fully cooperating with the DOJ regarding this matter.

NOTE 5 - ACQUISITIONS

During the quarter we completed our acquisition of assets of Small Bone Innovations, Inc. (SBi) for an aggregate purchase price of approximately $358. SBi products are designed and promoted for upper and lower extremity small bone indications, with a focus on small joint replacement. The acquisition of the assets of SBi enhances our product offerings within our Reconstructive segment. Intangible assets acquired with SBi will be amortized over a weighted-average life of 12 years.

In April 2014 we completed the acquisition of Berchtold Holding, AG (Berchtold) for an aggregate purchase price of approximately $172, net of cash acquired. Berchtold, a privately held business with operating facilities in Germany and the United States, sells surgical infrastructure equipment including surgical tables, equipment booms and surgical lighting systems. The acquisition of Berchtold enhances our product offerings within our MedSurg segment. Intangible assets acquired with Berchtold will be amortized over a weighted-average life of 8 years.

In March 2014 we completed our acquisition of Patient Safety Technologies, Inc. (PST) for an aggregate purchase price of $120. PST conducts its business through its wholly owned subsidiary, SurgiCount Medical, Inc. PST’s proprietary Safety-Sponge® System and SurgiCount 360™ compliance software help prevent Retained Foreign Objects in the operating room. The acquisition of PST enhances our product offerings within our MedSurg segment. Intangible assets acquired with PST will be amortized over a weighted-average life of 14 years.

The acquired net assets of other business acquisitions completed in 2014, including the previously announced acquisition of Pivot Medical, Inc., are in the "Other" column in the table below.

In December 2013 we acquired MAKO Surgical Corp. (MAKO) for an aggregate purchase price of $1,679. The acquisition of MAKO, combined with our strong history in joint reconstruction, capital equipment (operating room integration and surgical navigation) and surgical instruments, will help further advance the growth of robotic arm assisted surgery. Our combined expertise offers the potential to simplify joint reconstruction procedures, reduce variability and enhance the surgeon and patient experience. The acquisition of MAKO enhances our product offerings within our Reconstructive segment. Intangible assets acquired with MAKO will be amortized over a weighted-average life of 9 years, except for the trade name that is deemed to have an indefinite life. In-process research and development (IPRD) is considered to be an indefinite-lived intangible asset until such time as the research is completed (at which time it becomes a determinable-lived intangible asset) or determined to have no future use (at which time it is impaired).

The purchase price allocations for SBi, Berchtold, PST, MAKO and other smaller acquisitions 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 finalizing information related to these acquisitions to finalize the recording of identifiable intangible assets, deferred income taxes and the corresponding effect on the value of goodwill.

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

	2014				2013
	SBi	Berchtold	PST	Other	MAKO
Purchase price paid	$358	$172	$120	$148	$1,679
Tangible assets acquired:					
Inventory	34	22	7	5	50
Other assets	4	38	19	25	174
Liabilities	(2)	(45)	(33)	(32)	(277)
Intangible assets:					
Customer relationship	19	11	33	4	91
Trade name	—	7	—	—	24
Developed technology & patents	82	32	26	70	231
IPRD	—	—	—	2	169
Goodwill	221	107	68	74	1,217
	$358	$172	$120	$148	$1,679

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

NOTE 6 - LONG-TERM DEBT AND CREDIT FACILITIES
Our debt is as follows:

		September 30 2014	December 31 2013
Senior unsecured notes:			
Rate	Due		
3.00%	January 15, 2015	$500	$500
2.00%	September 30, 2016	749	749
1.30%	April 1, 2018	598	598
4.375%	January 15, 2020	498	498
3.375%	May 15, 2024	589	—
4.10%	April 1, 2043	395	394
4.375%	May 15, 2044	398	—
Commercial paper		199	—
Other		36	25
Total debt		3,962	2,764
Less current maturities		(731)	(25)
Total long-term debt		$3,231	$2,739

In August 2014, we amended and restated our Senior Unsecured Revolving Credit Facility. The principal changes were to increase the aggregate principal amount of the commitments to $1,250, to extend the maturity date to August 22, 2019 and to revise the definition of the consolidated Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) calculation.

During 2014 we issued commercial paper under the commercial paper program we established in July 2011. The program allows us to have a maximum of $500 in commercial paper outstanding, with maturities up to 397 days from the date of issuance. As of September 30, 2014, outstanding commercial paper totaled $199, the weighted average original maturity of the commercial paper outstanding was approximately 84 days and the weighted average interest rate was 0.24%.

In May 2014 we sold $600 in senior unsecured notes due 2024 (2024 Notes) and $400 of senior unsecured notes due 2044 (2044 Notes). The 2024 Notes will bear interest at 3.375% per year and, unless previously redeemed, will mature on May 15, 2024. The 2044 Notes will bear interest at 4.375% per year and, unless previously redeemed, will mature on May 15, 2044.

Certain of our credit facilities require us to comply with financial and other covenants. We were in compliance with all covenants at September 30, 2014. We have lines of credit, issued by various financial institutions, available to fund our day-to-day operating needs. At September 30, 2014, we had $1,098 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 September 30, 2014.

At September 30, 2014, the total unamortized debt issuance costs incurred in connection with our outstanding notes were $22. The fair value of long-term debt (including current maturities and excluding the interest rate hedge) at September 30, 2014 and December 31, 2013 was $3,786 and $2,790, respectively, based on the quoted interest rates for similar types and amounts of borrowing agreements.

NOTE 7 - CAPITAL STOCK
In July 2014 we declared a quarterly dividend of $0.305 per share, payable October 31, 2014 to shareholders of record at the close of business on September 30, 2014.

In December of 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 2014 we have repurchased 1.3 million shares at a cost of $100 under the 2011 Repurchase Program. As of September 30, 2014, the maximum dollar value of shares that may yet be purchased under the 2011 Repurchase Program was $178 and we had not made any repurchases pursuant to the 2012 Repurchase Program. At September 30, 2014, the maximum dollar value of shares that may be purchased under the authorized Repurchase Programs was $583.

NOTE 8 - RESTRUCTURING CHARGES

In recent years, we have incurred an ongoing annual level of restructuring-type activities to maintain a competitive cost structure, including manufacturing and workforce optimization. The costs incurred under the ongoing program have generally ranged from $50 to $75 annually. The productivity and cost savings plan was designed to accelerate cost reductions by streamlining management decision making, manufacturing and other work processes to help fund our growth strategy.

A rollforward of our restructuring liability balance is as follows:

	Total	Severance and Related Costs	Contractual Obligations and Other
January 1 Balance	$20	$10	$10
Charges to earnings	14	6	8
Cash paid	(19)	(9)	(10)
Other adjustments	5	(1)	6
September 30 Balance	$20	$6	$14

NOTE 9 - INCOME TAXES

Our effective tax rates for the three-month periods were 86.6% and 24.9%, respectively, and 63.5% and 20.7%, respectively, for the nine-month periods. The increase in the effective tax rate for the three-month and nine-month periods was primarily due to recording the tax impacts of the establishment of a European regional headquarters and a cash repatriation to the United States planned for the second half of 2015. The expirations of the United States federal research and development tax credit and certain United States tax code provisions related to the taxation of foreign earnings also increased the effective tax rates.

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

NOTE 10 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (AOCI)
Changes in and reclassifications out of AOCI in 2014 were as follows:

	Marketable Securities		Pension Plans		Hedges		Financial Statement Translation		Total	
	Three Months	Nine Months	Three Months	Nine Months	Three Months	Nine Months	Three Months	Nine Months	Three Months	Nine Months
Beginning balance	$7	$—	$(81)	$(81)	$(5)	$7	$310	$306	$231	$232
Other comprehensive income (loss) (OCI)	—	11	3	—	7	(9)	(312)	(308)	(302)	(306)
Income tax expense on OCI	—	(1)	1	1	(3)	4	—	—	(2)	4
Reclassifications out of AOCI into:										
Cost of sales	—	—	1	5	1	(4)	—	—	2	1
Other (income) expense	(4)	(7)	—	—	—	—	—	—	(4)	(7)
Income tax expense (benefit)	1	1	—	(1)	—	2	—	—	1	2
Total other comprehensive income (loss)	(3)	4	5	5	5	(7)	(312)	(308)	(305)	(306)
Balance at September 30	$4	$4	$(76)	$(76)	$—	$—	$(2)	$(2)	$(74)	$(74)

NOTE 11 - SEGMENT INFORMATION
Net sales and net earnings by business segment are as follows:

	Reconstructive				MedSurg				Neurotechnology and Spine				Total			
	Three Months		Nine Months		Three Months		Nine Months		Three Months		Nine Months		Three Months		Nine Months	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Net sales	$1,016	$936	$3,043	$2,858	$936	$805	$2,727	$2,474	$437	$410	$1,287	$1,221	$2,389	$2,151	$7,057	$6,553
Segment net earnings	259	254	735	718	163	130	459	452	108	79	273	230	$530	$463	$1,467	$1,400
Less: other (net of income taxes)																
Corporate and other													(91)	(65)	(209)	(179)
Acquisition and integration related charges													(17)	(9)	(47)	(41)
Amortization of intangible assets													(34)	(25)	(99)	(74)
Restructuring and related charges													(8)	(15)	(37)	(36)
Recall charges													(23)	(245)	(512)	(397)
Regulatory matter charges													—	(1)	—	(53)
Tax matters													(300)	—	(308)	—
Net earnings													$57	$103	$255	$620

Other than assets associated with the acquisitions that are discussed in greater detail in Note 5, there were no significant changes to total assets by segment from information provided in our Annual Report on Form 10-K for the year ended December 31, 2013.

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, with 2013 revenues of $9,021 and net earnings of $1,006. We are dedicated to helping healthcare professionals perform their jobs more efficiently while enhancing patient care. 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: Reconstructive, MedSurg, and Neurotechnology and Spine. The Reconstructive segment includes orthopaedic reconstructive (hip and knee) and trauma implant systems as well as other related products. The MedSurg segment includes surgical equipment and surgical navigation systems (Instruments); endoscopic and communications systems (Endoscopy); patient handling and emergency medical equipment (Medical); and other

related products. The Neurotechnology and Spine segment includes neurovascular products, spinal implant systems and other related products.

In the United States, most of our products are marketed directly to doctors, hospitals and other healthcare facilities. For the most part, 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.

Revenues in the United States accounted for 67.2% and 66.4% of total revenues in the first nine months of 2014 and 2013, respectively, and international revenues accounted for 32.8% and

33.6% of total revenues in the first nine months of 2014 and 2013, respectively.
During the third quarter we completed our acquisition of the assets of Small Bone Innovations, Inc. (SBi) for an aggregate purchase price of approximately $358. SBi products are designed and promoted for upper and lower extremity small bone indications, with a focus on small joint replacement. In April 2014 we completed the acquisition of Berchtold Holding, AG (Berchtold), a privately-held business with operations in Germany and the United States, for an aggregate purchase price of approximately $172. Berchtold sells surgical infrastructure equipment. In March 2014 we completed our acquisition of Patient Safety Technologies, Inc. (PST), for an aggregate purchase price of $120. PST conducts its business through its wholly owned subsidiary, SurgiCount

Medical, Inc. PST's proprietary Safety-Sponge® System and SurgiCount 360™ compliance software help prevent Retained Foreign Objects in the operating room. Other business acquisitions completed in 2014 include the acquisition of Pivot Medical, Inc (Pivot).
In July 2014 we established a European regional headquarters in the Netherlands. We believe that this increased presence will strengthen our brand in Europe, support the growth of our global business, provide operational efficiencies and simplify our customers' experience.

RESULTS OF OPERATIONS

	Three Months			Nine Months		
	2014	2013	% Change	2014	2013	% Change
Net Sales	$2,389	$2,151	11.1	$7,057	$6,553	7.7
Gross profit	1,567	1,469	6.7	4,658	4,428	5.2
Research, development and engineering expenses	153	136	12.5	461	397	16.1
Selling, general and administrative expenses	910	1,136	(19.9)	3,263	3,067	6.4
Amortization of intangible assets	50	34	47.1	142	102	39.2
Restructuring charges	4	13	(69.2)	14	36	(61.1)
Other income (expense)	(25)	(13)	92.3	(79)	(45)	75.6
Income taxes	368	34	982.4	444	161	175.8
Net earnings	$57	$103	(44.7)	$255	$620	(58.9)
Diluted net earnings per share	$0.16	$0.27	(40.7)	$0.67	$1.62	(58.6)

Geographic and segment net sales:

	Three Months		Percentage Change		Nine Months		Percentage Change	
	2014	2013	Reported	Constant Currency	2014	2013	Reported	Constant Currency
Geographic sales:								
United States	$1,628	$1,449	12.4	12.4	$4,740	$4,348	9.0	9.0
International	761	702	8.3	9.0	2,317	2,205	5.1	6.5
Total net sales	$2,389	$2,151	11.1	11.3	$7,057	$6,553	7.7	8.2
Segment sales:								
Reconstructive	$1,016	$936	8.5	8.6	$3,043	$2,858	6.5	6.9
MedSurg	936	805	16.3	16.6	2,727	2,474	10.2	10.7
Neurotechnology and Spine	437	410	6.5	6.9	1,287	1,221	5.4	5.9
Total net sales	$2,389	$2,151	11.1	11.3	$7,057	$6,553	7.7	8.2

Supplemental sales growth information:

	Three Months							Nine Months						
			% Change							% Change				
					U.S.	International						U.S.	Internat	
	2014	2013	As Reported	Constant Currency	As Reported	As Reported	Constant Currency	2014	2013	As Reported	Constant Currency	As Reported	As Reported	C
Knees	$335	$315	6.4	6.4	6.8	5.4	5.3	$1,033	$1,000	3.3	3.7	6.1	(2.3)	(1
Hips	316	304	4.1	4.1	8.1	(0.9)	(0.9)	960	931	3.1	3.7	6.8	(1.3)	—
Trauma and Extremities	309	277	11.5	11.9	15.3	7.1	7.9	895	809	10.6	10.9	13.4	7.4	8.
RECONSTRUCTIVE	1,016	936	8.5	8.6	11.9	3.4	3.7	3,043	2,858	6.5	6.9	10.2	1.1	2.
Instruments	348	292	19.4	19.5	22.9	10.0	10.4	1,031	919	12.2	12.5	14.0	7.5	8.
Endoscopy	345	291	18.3	18.7	14.6	28.4	29.8	993	870	14.2	14.8	12.4	18.5	20
Medical	190	168	12.4	12.9	10.7	20.1	22.8	548	522	4.9	5.6	5.0	4.5	7.
MEDSURG	936	805	16.3	16.6	15.4	19.3	20.4	2,727	2,474	10.2	10.7	9.9	11.4	13
Neurotechnology	251	227	10.2	10.7	11.9	7.4	8.7	739	675	9.5	10.2	10.5	8.0	9.
Spine	186	183	1.9	2.2	0.6	4.8	6.0	548	546	0.3	0.6	(1.8)	5.4	6.
NEUROTECHNOLOGY AND SPINE	437	410	6.5	6.9	6.5	6.4	7.6	1,287	1,221	5.4	5.9	4.5	7.0	8.

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

Consolidated Net Sales

Net sales in three-month period increased 11.1% from 2013. Net sales grew 10.2% as a result of increased unit volume and changes in product mix and 3.4% due to acquisitions. Net sales were unfavorably impacted by 2.3% due to changes in price and 0.2% due to the unfavorable impact of foreign currency exchange rates. Excluding the impact of acquisitions, net sales increased by 7.8% in constant currency. The increase was primarily due to higher shipments of instruments, endoscopy products, trauma and extremities products and neurotechnology products.

Net sales in the nine-month period increased 7.7% from 2013. Net sales grew 7.9% as a result of increased unit volume and changes in product mix and 2.3% due to acquisitions. Net sales were unfavorably impacted by 2.1% due to changes in price and 0.5% due to the unfavorable impact of foreign currency exchange rates. Excluding the impact of acquisitions, net sales increased by 5.9% in constant currency. The increase was primarily due to higher shipments of instruments, endoscopy products, trauma and extremities products and neurotechnology products.

Reconstructive Net Sales

Reconstructive net sales in the three-month period increased 8.5% from 2013 primarily due to a 8.2% increase in unit volume and changes in product mix and 3.7% due to acquisitions. Net sales were unfavorably impacted by 3.2% due to changes in price and 0.1% due to the unfavorable impact of foreign currency exchange rates. Excluding the impact of acquisitions, net sales increased 4.9% in constant currency, primarily due to higher shipments of trauma and extremities products and knees worldwide and hips in the United States.

Reconstructive net sales in the nine-month period increased 6.5% from 2013 primarily due to a 6.6% increase in unit volume and changes in product mix and 3.1% due to acquisitions. Net sales were unfavorably impacted by 2.8% due to changes in price and 0.5% due to the unfavorable impact of foreign currency exchange rates. Excluding the impact of acquisitions, net sales increased 3.8% in constant currency primarily due to higher shipments of trauma and extremities products and knees worldwide and hips in the United States.

MedSurg Net Sales

MedSurg net sales in the three-month period increased 16.3% from 2013 primarily due to a 12.7% increase in unit volume and changes in product mix and 4.7% due to acquisitions. Net sales were unfavorably impacted by 0.8% due to changes in price and 0.3% due to the unfavorable impact of foreign currency exchange rates on net sales. Excluding the impact of acquisitions, net sales increased 11.9% in constant currency, primarily due to higher shipments of instruments and endoscopy products.

MedSurg net sales in the nine-month period increased 10.2% from 2013 primarily due to a 9.4% increase in unit volume and changes in product mix and 2.4% due to acquisitions. Net sales were unfavorably impacted by 1.0% due to changes in price and 0.5% due to the unfavorable impact of foreign currency exchange rates

on net sales. Excluding the impact of acquisitions, net sales increased 8.4% in constant currency, primarily due to higher shipments of instruments and endoscopy products.

Neurotechnology and Spine Net Sales

Neurotechnology and Spine net sales in the three-month period increased 6.5% from 2013 primarily due to a 9.9% increase in unit volume and changes in product mix and 0.4% due to acquisitions. Net sales were unfavorably impacted by 3.4% due to changes in price and 0.4% due to the unfavorable impact of foreign currency exchange rates on net sales. Excluding the impact of acquisitions, net sales increased 6.5% in constant currency, led by higher shipments of neurotechnology products.

Neurotechnology and Spine net sales in the nine-month period increased 5.4% from 2013 primarily due to a 8.0% increase in unit volume and changes in product mix and 0.4% from acquisitions. Net sales were unfavorably impacted by 2.4% due to changes in price and 0.5% due to the unfavorable impact of foreign currency exchange rates on net sales. Excluding the impact of acquisitions, net sales increased by 5.5% in constant currency, primarily due to higher shipments of neurotechnology products.

Cost of Sales

Cost of sales increased 20.5% in the three-month period to 34.4% of sales compared to 31.7% of sales in 2013. The impact of our recent acquisitions and product mix contributed to the increase in cost of sales, as sales growth for capital equipment in our MedSurg businesses, which have a lower gross margin rate, outpaced sales growth in the

Reconstructive segment. Cost of sales in 2014 and 2013 also includes $10 and $8, respectively, related to inventory that was "stepped up" to fair value following acquisitions. Cost of sales also includes ($1) and $2 in restructuring and restructuring-related costs in 2014 and 2013. Excluding the impact of the acquisition and restructuring costs described above, cost of sales was 34.0% of sales compared to 31.2% in 2013.

Cost of sales increased 12.9% in the nine-month period to 34.0% of sales compared to 32.4% of sales in 2013. The impact of our recent acquisitions and product mix contributed to the increase in cost of sales, as sales growth for capital equipment in our MedSurg businesses outpaced sales growth in the Reconstructive segment. Cost of sales in 2014 and 2013 also includes $24 and $16, respectively, related to inventory that was "stepped up" to fair value following acquisitions and $9 in 2013 in restructuring and restructuring-related costs. Excluding the impact of the acquisition and restructuring costs described above, cost of sales was 33.7% of sales as compared to 32.0% in 2013.

Research, Development and Engineering Expenses

Research, development and engineering expenses in the three-month period increased 12.5% to $153, or 6.4% of sales compared to 6.3% in 2013 and in the nine-month period increased 16.1% to $461, or 6.5% of sales compared to 6.1% in 2013. The timing of projects for anticipated future products, the impact of acquisitions and continued investment in new technologies causes the spending level to vary by period as a percentage of sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in the three-month period decreased 19.9% to $910, or 38.1% of sales compared to 52.8% in 2013. The three-month periods included $14 and $6 in 2014 and 2013, respectively, in acquisition and integration related charges; $16 and $0 in 2014 and 2013, respectively, in restructuring related charges; $29 and $313 in 2014 and 2013, respectively, related to the previously disclosed voluntary recall of the Rejuvenate and ABG II modular-neck hip stems and the recall of the Neptune Waste Management System; and $1 in 2013 related to two previously disclosed United States regulatory matters. Excluding the impact of these charges, selling, general and administrative expenses were 35.6% of sales in 2014 compared to 38.0% in 2013, primarily due to improved control over general and administrative spending.

Selling, general and administrative expenses in the nine-month period increased by 6.4% to $3,263, or 46.2% of sales compared to 46.8% in 2013. The nine-month periods included $46 and $38 in 2014 and 2013, respectively, in acquisition and integration related charges; $40 and $3 in 2014 and 2013, respectively, in restructuring related charges; $649 and $523 in 2014 and 2013, respectively, related to the previously disclosed voluntary recall of the Rejuvenate and ABG II modular-neck hip stems and the recall of the Neptune Waste Management System; and $58 in 2013 related to two previously disclosed United States regulatory matters. Excluding the impact of these charges, selling, general and administrative expenses were 35.8% of sales in 2014 compared to 37.3% in 2013, primarily due to improved control over general and administrative spending.

Restructuring Charges

Restructuring charges of $4 and $13 were recorded in the three-month periods in 2014 and 2013, respectively, and $14 and $36 in the nine-month periods in 2014 and 2013, respectively. These restructuring charges are the result of our ongoing level of restructuring type activities to maintain a competitive cost structure, including manufacturing and workforce optimization. Our productivity and cost savings plans are designed to accelerate cost reductions by streamlining management decision making, manufacturing and other work processes to help fund our growth strategy.

Other Income (Expense)

Other expense in the three- and nine-month periods increased $12 and $34, respectively, from 2013, primarily due to increased interest expense associated with our public offering of notes in May 2014 and March 2013 and in the nine-month period due to losses on foreign currency exchange transactions.

Income Taxes

Our effective income tax rate on earnings was 86.6% and 24.8% in the three-month periods in 2014 and 2013, respectively, and 63.5% and 20.6% in the nine-month periods in 2014 and 2013, respectively. In 2014 we recorded tax charges of $300 related to the establishment of a European regional headquarters, the transfer

of intellectual property within Europe and a planned cash repatriation to the United States of approximately $2,000 in the second half of 2015. In 2013 we recorded retroactive net tax benefits of $13 pursuant to the American Taxpayer Relief Act of 2012 that was signed into law on January 2, 2013. These tax benefits related to the retroactive extension of numerous tax provisions, including an extension of the research tax credit and other provisions for companies with significant international operations. These same tax provisions expired at the end of 2013.

Net Earnings

Net earnings in the three-month period decreased to $57 or $0.16 per diluted share from $103 or $0.27 per diluted share in 2013. Reported net earnings includes restructuring and restructuring-related charges of $8 and $15 in 2014 and 2013, respectively; acquisition and integration related charges of $17 and $9 in 2014 and 2013, respectively; amortization of purchased intangible assets of $34 and $25 in 2014 and 2013, respectively; charges related to the previously disclosed voluntary recall of the Rejuvenate and ABG II modular-neck hip stems and the recall of the Neptune Waste Management System of $23 and $245 in 2014 and 2013, respectively; tax charges related to the establishment of a European regional headquarters of $300 in 2014 and charges related to two previously disclosed United States regulatory matters of $1 in 2013. The impact of foreign currency exchange rates on net earnings reduced diluted net earnings per share by approximately $0.01.

Net earnings in the nine-month period decreased to $255 or $0.67 per diluted share from $620 or $1.62 per diluted share in 2013. Reported net earnings includes restructuring and restructuring-related charges of $37 and $36 in 2014 and 2013, respectively; acquisition and integration related charges of $47 and $41 in 2014 and 2013, respectively; amortization of purchased intangible assets of $99 and $74 in 2014 and 2013, respectively; charges related to the previously disclosed voluntary recall of the Rejuvenate and ABG II modular-neck hip stems and the recall of the Neptune Waste Management System of $512 and $397 in 2014 and 2013, respectively; tax charges related to the establishment of a European regional headquarters and other discrete items of $308 in 2014 and charges related to two previously disclosed United States regulatory matters of $53 in 2013. The impact of foreign currency exchange rates on net earnings reduced diluted net earnings per share by approximately $0.08.

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.
2. Amortization of intangible assets. Periodic amortization expense related to purchased intangible assets.
3. Restructuring and related charges. Costs associated with focused workforce reductions and other restructuring activities.
4. 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 Months Ended September 30, 2014	Gross Profit	Selling, General & Administrative Expenses	Intangible Amortization	Operating Income	Net Earnings	Effective Tax Rate	Diluted EPS
AS REPORTED	$1,567	$ 910	$ 50	$450	$57	86.6 %	$0.16
Acquisition and integration related charges							
Inventory stepped up to fair value	10	—	—	10	6	0.5	0.02
Other acquisition and integration related	—	(14)	—	14	11	0.1	0.03
Amortization of intangible assets	—	—	(50)	50	34	1.4	0.09
Restructuring and related charges	(1)	(16)	—	19	8	1.7	0.02
Rejuvenate and recall matters	—	(29)	—	29	23	0.1	0.06
Tax matters	—	—	—	—	300	(70.5)	0.77
ADJUSTED	$1,576	$ 851	$ —	$572	$439	19.9 %	$1.15

Three Months Ended September 30, 2013	Gross Profit	Selling, General & Administrative Expenses	Intangible Amortization	Operating Income	Net Earnings	Effective Tax Rate	Diluted EPS
AS REPORTED	$1,469	$ 1,136	$ 34	$150	$103	24.8 %	$0.27
Acquisition and integration related charges							
Inventory stepped up to fair value	8	—	—	8	6	0.2	0.02
Other acquisition and integration related	—	(6)	—	6	3	1.4	0.01
Amortization of intangible assets	—	—	(34)	34	25	0.4	0.06
Restructuring and related charges	2	—	—	15	15	(1.4)	0.04
Rejuvenate and recall matters	—	(313)	—	313	245	(0.9)	0.64
Regulatory and legal matters	—	1	—	(1)	1	(2.1)	—
ADJUSTED	$1,479	$ 818	$ —	$525	$398	22.4 %	$1.04

Nine Months Ended September 30, 2014	Gross Profit	Selling, General & Administrative Expenses	Intangible Amortization	Operating Income	Net Earnings	Effective Tax Rate	Diluted EPS
AS REPORTED	$4,658	$ 3,263	$ 142	$778	$255	63.5 %	$0.67
Acquisition and integration related charges							
Inventory stepped up to fair value	24	—	—	24	15	0.5	0.04
Other acquisition and integration related	—	(46)	—	46	32	0.6	0.08
Amortization of intangible assets	—	—	(142)	142	99	1.6	0.26

Restructuring and related charges	—	(40)	—	54	37	0.7	0.10
Rejuvenate and recall matters	—	(649)	—	649	512	(0.8)	1.32
Tax matters	—	—	—	—	308	(44.0)	0.82
ADJUSTED	$4,682	$ 2,528	$ —	$1,693	$1,258	22.1 %	$3.29

Nine Moths Ended September 30, 2013	Gross Profit	Selling, General & Administrative Expenses	Intangible Amortization	Operating Income	Net Earnings	Effective Tax Rate	Diluted EPS
AS REPORTED	$4,428	$ 3,067	$ 102	$826	$620	20.6 %	$1.62
Acquisition and integration related charges							
Inventory stepped up to fair value	16	—	—	16	12	—	0.03
Other acquisition and integration related	—	(38)	—	38	29	0.2	0.08
Amortization of intangible assets	—	—	(102)	102	74	0.3	0.20
Restructuring and related charges	9	(3)	—	48	36	0.3	0.09
Rejuvenate and recall matters	—	(523)	—	523	397	1.6	1.04
Regulatory and legal matters	—	(58)	—	58	53	(1.0)	0.14
ADJUSTED	$4,453	$ 2,445	$ —	$1,611	$1,221	22.0 %	$3.20

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

Operating Activities

Cash provided by operations totaled $535 and $622 in the three-month periods and $1,107 and $1,214 in the nine-month periods of 2014 and 2013, respectively, resulting primarily from net earnings adjusted for non-cash items (depreciation and amortization, share-based compensation, deferred income taxes and charges for product recalls and taxes to establish the European regional headquarters). The non-cash adjustments related to the Rejuvenate and ABG II and Neptune recalls were $29 and $313 in the three-month periods and $649 and $523 in the nine-month periods of 2014 and 2013, respectively.

The net of accounts receivable, inventory and accounts payable consumed $158 in the three-month period in 2014 and generated $13 of cash in the three-month period in 2013. The net of accounts receivable, inventory and accounts payable consumed $214 and $91 of cash in the nine-month periods of 2014 and 2013, respectively, contributing a $171 decrease in cash provided by operations in the three-month period and a $123 decrease in cash provided by operations in the nine-month period compared to 2013, respectively.

In the three-month period $65 of cash was used from accounts receivable compared to a generation of cash of $57 in 2013 as a result of higher sales near the end of the period in 2014. In the nine-month period $12 of cash was used from accounts receivable

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

compared to cash generation of $46 in 2013 as a result of higher sales near the end of the period in 2014.
In the three-month period $97 of cash was consumed to increase inventory levels to support higher sales levels compared to $43 in 2013 as days of inventory on hand increased by five days compared to an increase of 19 days in 2013. In the nine-month period $217 of cash was consumed to increase inventory levels to support higher sales compared to $106 in 2013 as days of inventory on hand increased by 30 days compared to an increase of 32 days in 2013.

Investing Activities

In the nine-month periods $1,790 and $1,926 of cash was consumed in net investing activities in 2014 and 2013, respectively. The net investing activities in both periods were primarily in marketable securities and acquisitions.

Acquisitions. In the nine-month periods $825 and $686 of cash was consumed for acquisitions in 2014 and 2013, respectively. In 2014 the primary acquisitions were SBi, Berchtold, PST and Pivot and in 2013 the primary acquisition was Trauson Holdings Company Limited.

Capital Spending. In the nine-month periods in 2014 and 2013, respectively, $172 and $139 of cash was consumed for capital expenditures, primarily to support integration of acquisitions, capacity expansion, new product introductions, innovation and cost savings. We manage capital spending to support our business growth.

Marketable Securities. In the nine-month periods $793 and $1,101 of cash was consumed for the net purchase of marketable securities in 2014 and 2013, respectively.

Financing Activities

Dividend Payments. In the nine-month period in 2014 dividends paid per common share increased 15.1% to $0.915 per share compared to $0.795 in 2013. Total dividend payments to common shareholders were $346 and $301 in the nine-month periods in 2014 and 2013, respectively.

Long-Term and Short-Term Debt. In the nine-month periods proceeds from borrowings were $1,195 and $1,014 in 2014 and 2013, respectively. In 2014 the proceeds were primarily from the public offerings of notes and commercial paper, and proceeds in 2013 were primarily from public offerings of notes. Refer to Note 6 in the Notes to the Consolidated Financial Statements for further information.

Share Repurchases. In the nine-month periods $100 and $252 of cash was consumed to repurchase shares in 2014 and 2013, respectively.

Liquidity

Cash, cash equivalents and marketable securities were $4,677 and $3,980 at September 30, 2014 and December 31, 2013, respectively, and current assets exceeded current liabilities by $5,115 and $5,678, 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- 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 $1,098 of borrowing capacity available under all of our existing credit facilities at September 30, 2014.

At September 30, 2014 approximately 67.6% of our consolidated cash, cash equivalents and marketable securities were held in locations outside the United States. We now plan to repatriate approximately $2,000 of cash from outside the United States in the second half of 2015, the remaining funds are considered indefinitely reinvested to be used 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 at were approximately $151 and $199 at September 30, 2014 and December 31, 2013, respectively, including approximately $77 and $103, 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.

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

We are involved in various ongoing proceedings, legal actions and claims arising in the normal course of business, including proceedings related to product, labor, intellectual property, and other matters. 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, for the resolution of these legal matters 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 projected by management, additional expense may be incurred, which could unfavorably affect our future financial position, results of operations and cash flows. 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 2010 we received a subpoena from the United States Department of Justice (DOJ) related to the sales and marketing of the OtisKnee device. The subpoena concerns allegations of violations of federal laws related to sales of a device not cleared by the United States Food and Drug Administration (FDA). We continue to discuss the settlement of this matter with the DOJ, but there can be no assurance that we will reach a consensual resolution rather than seeking a resolution through the courts. We have recorded charges totaling $80 related to this matter.

In June 2012 we voluntarily recalled our Rejuvenate and ABG II modular-neck hip stems and terminated global distribution of these hip products. We notified healthcare professionals and regulatory bodies of this recall, which was taken due to potential risks associated with fretting and/or corrosion that may lead to adverse local tissue reactions. Product liability lawsuits relating to this voluntary recall have been filed against us. As previously announced, we intend to reimburse implanted patients for reasonable and customary costs of testing and treatment services, including any necessary revision surgeries. We continue to work with the medical community to evaluate the data and further understand this matter. The ultimate total cost with respect to this matter will depend on many factors that are difficult to predict and may vary materially based on the number of and actual costs of patients seeking testing and treatment services, the number of and actual costs of patients requiring revision surgeries, the number of and actual costs to settle lawsuits filed against us, and the amount of third-party insurance recoveries. Based on the information that has been received, the actuarially determined range of probable loss to resolve this matter is estimated to be approximately $1,425 to $2,290, before third-party insurance recoveries that may potentially be recorded. In the three months ended September 30, 2014, we recorded charges to earnings of $25 representing the excess of the $1,425 minimum of the range over the previously recorded reserves. No contingent gain for third-party insurance recoveries was recorded as of September 30, 2014. As noted above, 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 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 rulings issued in August and September 2013, the trial judge upheld the February 2013 jury verdict in our favor, issued a permanent injunction barring Zimmer from making

or selling infringing products, and ordered Zimmer to pay us at least $228. Zimmer is appealing this ruling and the ultimate resolution of this matter may differ materially. Accordingly, we have not recorded a contingent gain related to this matter.

For each of the following legal matters the final outcome is dependent on many variables and cannot be predicted. Accordingly, it is not possible at this time for us to estimate any material loss or range of losses. However, the ultimate cost to resolve these matters could have a material adverse effect on our financial position, results of operations and cash flows.

In April 2011 lawsuits brought by Hill-Rom Company, Inc. and affiliated entities (Hill-Rom) against us were filed in the United States District Court for the Western District of Wisconsin and the United States District Court for the Southern District of Indiana alleging infringement under United States patent laws with respect to certain patient handling equipment we manufactured and sold and seek damages and permanent injunctions. The Wisconsin lawsuit was subsequently transferred to the United States District Court in Indiana and we have entered into an agreement settling that lawsuit on terms as previously disclosed. The second lawsuit involves nine patents related to electrical network communications for hospital beds. The case has been stayed with respect to six of the patents that are currently under reexamination by the United States Patent Office. With respect to the three remaining patents, all of which have now expired, the Court of Appeals for the Federal Circuit reversed the trial court's grant of summary judgment in our favor and remanded the matter to the trial court for further proceedings. We filed a request with the United States Supreme Court asking that it vacate the Federal Court's decision. The district court has administratively closed the case until the Supreme Court resolves this request. The ultimate resolution of the entire second suit may have no relation to the resolution of the first suit and cannot be predicted; however, the result could have a material adverse effect on our financial position, results of operations and cash flows.

In 2010 we received a subpoena from the DOJ related to sales, marketing and regulatory matters related to the Stryker PainPump. We have received requests for certain documents in connection with this investigation. The investigation is ongoing and we are fully cooperating with the DOJ regarding this matter.

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 the year ended December 31, 2013. 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 the year ended December 31, 2013.

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 the year ended December 31, 2013 under the caption "Hedging and Derivative Financial 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 September 30, 2014 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 quarter ended September 30, 2014 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 34,710 shares of our common stock in the nine months ended September 30, 2014 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 December of 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.

As of September 30, 2014, the maximum dollar value of shares that may yet be purchased under the 2011 Repurchase Program was $178 and we have not made any repurchases pursuant to the 2012 Repurchase Program. At September 30, 2014, the maximum dollar value of shares that may be purchased under the authorized Repurchase Programs was $583.

A summary of the activity pursuant to the 2011 Repurchase Programs for the three months ended September 30, 2014 is as follows:

	Total Number of Shares (millions)			
Period	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
Jul 1 - 31, 2014	—	—	$79.97	$217

Aug 1 - 31, 2014	0.5	0.5	79.85	178
Sep 1 - 30, 2014	—	—	—	$178
Total	0.5	0.5	$79.85	

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

ITEM 6. EXHIBITS

(a)

4.1	Amended and Restated Credit Agreement, dated as of August 29, 2014, among Stryker Corporation and certain subsidiaries, as designated borrowers; the lenders party thereto; and JPMorgan Chase Bank, N.A., as administrative agent-Incorporated by reference to Exhibit 4.1 to our 8-K dated September 3, 2014 (Commission File no. 000-09165).
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

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)

October 23, 2014	/s/ KEVIN A. LOBO
Date	Kevin A. Lobo, President and Chief Executive Officer
October 23, 2014	/s/ WILLIAM R. JELLISON
Date	William R. Jellison, Vice President, Chief Financial Officer

EXHIBIT INDEX

Exhibit 4	Amended and Restated Credit Agreement, dated as of August 29, 2014, among Stryker Corporation and certain subsidiaries, as designated borrowers; the lenders party thereto; and JPMorgan Chase Bank, N.A., as administrative agent-Incorporated by reference to Exhibit 4.1 to our 8-K dated September 3, 2014 (Commission File no. 000-09165).
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