

STRYKER CORP
Form 10-K
February 12, 2015

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

FORM 10-K

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

For the fiscal year ended December 31, 2014

OR

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

Commission file number: 000-09165

STRYKER CORPORATION

(Exact name of registrant as specified in its charter)

Michigan	38-1239739
(State of incorporation)	(I.R.S. Employer Identification No.)
2825 Airview Boulevard, Kalamazoo, Michigan	49002
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code: (269) 385-2600	

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.10 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

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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 Act). YES
NO

Based on the closing sales price of June 30, 2014, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$29,425,287,926. The number of shares outstanding of the registrant's common stock, \$.10 par value, was 378,749,951 at January 31, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement to be filed with the U.S. Securities and Exchange Commission relating to the 2015 Annual Meeting of Shareholders (the 2015 proxy statement) are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS.

General

Stryker Corporation is one of the world's leading medical technology companies, with 2014 revenues of \$9,675 and net earnings of \$515. Stryker's products include implants used in joint replacement and trauma surgeries; surgical equipment and surgical navigation systems; endoscopic and communications systems; patient handling and emergency medical equipment; neurosurgical, neurovascular and spinal devices; as well as other medical device products used in a variety of medical specialties.

Stryker was incorporated in Michigan in 1946 as the successor company to a business founded in 1941 by Dr. Homer H. Stryker, a prominent orthopaedic surgeon and the inventor of several orthopaedic products. In the United States, most of our products are marketed directly to doctors, hospitals and other healthcare facilities. Internationally, our products are sold in over 100 countries through company-owned sales subsidiaries and branches as well as third-party dealers and distributors.

As used herein, and except where the context otherwise requires, "Stryker," "we," "us," and "our" refer to Stryker Corporation and its consolidated subsidiaries.

Business Segments and Geographic Information

In December 2014 we changed the name of our Reconstructive business segment to Orthopaedics. This change did not change the composition of any of our business segments and had no financial impact.

We segregate our reporting into three reportable business segments: Orthopaedics, MedSurg, and Neurotechnology and Spine. Financial information regarding our reportable business segments and certain geographic information is included under "Results of Operations" in Item 7 of this report and Note 12 to the Consolidated Financial Statements in Item 8 of this report.

Net sales by reportable segment over the last three years were:

	2014		2013		2012				
Orthopaedics	\$4,153	43	%	\$3,949	44	%	\$3,823	44	%
MedSurg	3,781	39	%	3,414	38	%	3,265	38	%
Neurotechnology and Spine	1,741	18	%	1,658	18	%	1,569	18	%
Total	\$9,675	100	%	\$9,021	100	%	\$8,657	100	%

Orthopaedics

Orthopaedics products consist primarily of implants used in hip and knee joint replacements and trauma and extremities surgeries. We bring patients and physicians advanced implant designs and specialized instrumentation that make orthopaedic surgery and recovery simpler, faster and more effective. We support surgeons with the technology and services they need as they develop new surgical techniques.

Stryker is one of five leading competitors globally for joint replacement and trauma products; the other four are Zimmer Holdings, Inc. (Zimmer), DePuy Synthes Company, a subsidiary of Johnson & Johnson, Biomet, Inc. and Smith & Nephew plc (Smith & Nephew).

The composition of net sales of Orthopaedics products over the last three years was:

	2014		2013		2012				
Knees	\$1,396	34	%	\$1,371	35	%	\$1,356	35	%
Hips	1,291	31	%	1,272	32	%	1,233	32	%
Trauma and Extremities	1,230	30	%	1,116	28	%	989	26	%
Other	236	5	%	190	5	%	245	7	%
Total	\$4,153	100	%	\$3,949	100	%	\$3,823	100	%

In September 2014 we acquired certain 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 December 2013 we acquired MAKO Surgical Corp. (MAKO). 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.

In March 2013 we acquired Trauson Holdings Company Limited (Trauson). The acquisition of Trauson enhances our product offerings, primarily within our Orthopaedics segment, broadens our presence in China and enables us to expand into the fast growing value segment of the emerging markets.

In 2013 we launched the Tritanium Cementless Baseplate for our Triathlon Knee Arthroscopy (TKA) system, which combines biologic fixation with Triathlon's kinematics to provide surgeons with a superior option for cementless TKA. We also launched the Secur-Fit Advanced Femoral Hip Stem, which facilitates the accurate restoration of biomechanics when used with our new and unique Stryker Orthopaedics Modeling and Analytics system.

In 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. In November 2014 we entered into a Settlement Agreement (the "Settlement Agreement") to compensate eligible United States patients who had surgery to replace their Rejuvenate and ABG II modular-neck hip stems, known as a "revision surgery", prior to November 3, 2014. To date we have recorded charges to earnings totaling \$1,534 (\$1,713 before \$179 of third party insurance recoveries) representing the actuarially determined low end of the range of probable loss to resolve this entire matter globally. It is expected that a majority of the payments under the Settlement Agreement will be made by the end of 2015. See Note 7 to the Consolidated Financial Statements in Item 8 of this report for further information.

In 2012 we launched Accolade II, the first hip stem with a Morphometric Wedge design, an evolution of the tapered wedge stem.

MedSurg

MedSurg products include surgical equipment and surgical navigation systems (Instruments); endoscopic and communications systems (Endoscopy); patient handling and emergency medical equipment (Medical); and reprocessed and remanufactured medical devices (Sustainability) as well as other medical device products used in a variety of medical specialties.

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Stryker is one of four market leaders in Instruments, competing principally with Zimmer, Medtronic plc. and ConMed Linvatec, Inc., a subsidiary of CONMED Corporation (ConMed Linvatec) globally. In Endoscopy, we compete with Smith & Nephew Endoscopy, ConMed Linvatec, Inc., Arthrex, Inc., Karl Storz GmbH & Co. and Olympus Optical Co. Ltd. Our primary competitor in Medical is Hill-Rom Holdings, Inc.

The composition of net sales of MedSurg products over the last three years was:

	2014			2013			2012		
Instruments	\$1,424	38	%	\$1,269	37	%	\$1,261	39	%
Endoscopy	1,382	37	%	1,222	36	%	1,111	34	%
Medical	766	20	%	710	21	%	691	21	%
Sustainability	209	5	%	213	6	%	202	6	%
Total	\$3,781	100	%	\$3,414	100	%	\$3,265	100	%

In January 2015 we announced the asset acquisition of privately-held CHG Hospital Beds, Inc. ("CHG") in an all cash transaction. CHG, headquartered in London, Ontario, Canada, manufactures and markets low-height hospital beds and related accessories across Canada, and in the United States and the United Kingdom.

In April 2014 we acquired Berchtold Holding, AG (Berchtold), a privately-held business with operations in Germany and the United States, for an aggregate purchase price of approximately \$184. Berchtold sells surgical tables, equipment booms and surgical lighting systems. In March 2014 we acquired 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 in 2014 include the acquisition of Pivot Medical, Inc. (Pivot), which develops and sells innovative products for hip arthroscopy.

In March 2013 we received a warning letter from the United States Food and Drug Administration (FDA) concerning quality system observations made during an inspection and citing us for failing to notify the FDA of a product recall and for marketing devices, including certain of our Neptune Waste Management Systems, without a required 510(k) clearance. We were notified in January 2014 that the actions taken to address issues raised in the warning letter were sufficient and no further corrective actions related to the warning letter were required.

In December 2013 we received 510(k) clearance to market a modified Neptune 2 Waste Management System. The Neptune 2 Waste Management System mitigates risks to healthcare workers by eliminating harmful exposure to fluids and smoke in the operating room. This constantly closed system collects surgical waste and disposes of it without exposing the operator to contact with infectious fluids and surgical plumes.

In 2012 we launched System 7, the next generation of heavy duty surgical power tools. These tools are used in total joint procedures, such as hip and knee replacements, and offer the latest in advanced cutting technology. We also launched the 1488 HD 3-Chip Endoscopic Camera System, which utilizes advanced CMOS technology and premium optics to provide a clear bright image designed to enhance patient outcomes. In addition, we launched Power-LOAD™, our cot fastener system that lifts and lowers the cot into and out of ambulances, thereby reducing spinal loads and the risk of cumulative trauma injuries to emergency responders.

Neurotechnology and Spine

Our Neurotechnology and Spine products include both neurosurgical and neurovascular devices. Our neurotechnology offering includes products used for minimally invasive endovascular techniques; a comprehensive line of products for traditional brain and open skull base surgical procedures; orthobiologic and biosurgery products, including synthetic bone grafts and vertebral augmentation products; and minimally invasive products for the treatment of acute ischemic and hemorrhagic stroke. We also develop, manufacture and market spinal implant products including cervical, thoracolumbar and interbody systems used in spinal injury, deformity and degenerative therapies.

Our primary competitors in Neurotechnology are Medtronic, including Covidien, which was recently acquired by Medtronic, and Johnson & Johnson. We are one of five market leaders in Spine, along with Medtronic Sofamor Danek, Inc. (a subsidiary of M