

STRYKER CORP  
Form 10-Q  
July 23, 2013

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

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FORM 10-Q  
(Mark one)

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

For the quarterly period ended June 30, 2013

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

(Address of principal executive  
offices)

49002

(Zip Code)

(269)-385-2600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer  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

Number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:  
378,132,187 shares of Common Stock, \$0.10 par value, as of June 30, 2013.

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## PART I. - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

## Stryker Corporation and Subsidiaries

## CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

|   | Three Months Ended |         | Six Months Ended June |         |
|---|--------------------|---------|-----------------------|---------|
|   | June 30            |         | 30                    |         |
|   | 2013               | 2012    | 2013                  | 2012    |
| Net sales   | \$2,212            | \$2,106 | \$4,402               | \$4,267 |
| Cost of sales   | 730                | 672     | 1,443                 | 1,381   |
| Gross profit  | 1,482              | 1,434   | 2,959                 | 2,886   |
| Research, development and engineering expenses  | 132                | 116     | 261                   | 228     |
| Selling, general and administrative expenses  | 1,015              | 823     | 1,931                 | 1,642   |
| Intangible asset amortization   | 36                 | 31      | 68                    | 62      |
| Restructuring charges   | 9                  | 19      | 23                    | 33      |
| Total operating expenses  | 1,192              | 989     | 2,283                 | 1,965   |
| Operating income  | 290                | 445     | 676                   | 921     |
| Other income (expense), net   | (21                | ) (10   | ) (32                 | ) (18   |
| Earnings before income taxes  | 269                | 435     | 644                   | 903     |
| Income taxes  | 56                 | 110     | 127                   | 228     |
| Net earnings  | \$213              | \$325   | \$517                 | \$675   |
| Net earnings per share of common stock:   |                    |         |                       |         |
| Basic net earnings per share of common stock  | \$0.56             | \$0.85  | \$1.36                | \$1.77  |
| Diluted net earnings per share of common stock  | \$0.56             | \$0.85  | \$1.35                | \$1.76  |
| Weighted-average shares outstanding—in millions:  |                    |         |                       |         |
| Basic   | 378.0              | 381.0   | 378.8                 | 381.0   |
| Net effect of dilutive employee stock options   | 3.0                | 2.3     | 3.2                   | 2.5     |
| Diluted   | 381.0              | 383.3   | 382.0                 | 383.5   |
| Anti-dilutive shares excluded from the calculation of net effect of dilutive employee stock options | 2.1                | 8.8     | 2.2                   | 8.8     |

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

|   | Three Months Ended |       | Six Months Ended June |        |
|---|--------------------|-------|-----------------------|--------|
|   | June 30            |       | 30                    |        |
|   | 2013               | 2012  | 2013                  | 2012   |
| Net earnings  | \$213              | \$325 | \$517                 | \$675  |
| Unrealized (losses) gains on securities, net of income tax benefit (expense) [\$2 and \$2 in 2013, \$0 and (\$1) in 2012] | (5                 | ) (3  | ) (6                  | ) 4    |
| Unfunded pension (losses) gains, net of income tax benefit (expense) [\$0 and \$1 in 2013, \$0 and \$0 in 2012]           | (1                 | ) 1   | 2                     | —      |
| Foreign currency translation adjustments  | 20                 | (293  | ) (94                 | ) (208 |
| Total other comprehensive income (loss)   | 14                 | (295  | ) (98                 | ) (204 |
| Comprehensive income  | \$227              | \$30  | \$419                 | \$471  |

See accompanying notes to Consolidated Financial Statements.

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

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## Stryker Corporation and Subsidiaries

## CONSOLIDATED BALANCE SHEETS (Unaudited)

|   | June 30<br>2013 | December 31<br>2012 |
|---|-----------------|---------------------|
| <b>ASSETS</b>   |                 |                     |
| Current assets  |                 |                     |
| Cash and cash equivalents   | \$971           | \$1,395             |
| Marketable securities   | 3,681           | 2,890               |
| Accounts receivable, less allowance of \$59 (\$58 in 2012)                          | 1,413           | 1,430               |
| Inventories   |                 |                     |
| Materials and supplies  | 205             | 202                 |
| Work in process   | 85              | 71                  |
| Finished goods  | 1,055           | 992                 |
| Total inventories   | 1,345           | 1,265               |
| Deferred income taxes   | 781             | 811                 |
| Prepaid expenses and other current assets   | 498             | 357                 |
| Total current assets  | 8,689           | 8,148               |
| Property, plant and equipment   |                 |                     |
| Land, buildings and improvements  | 663             | 625                 |
| Machinery and equipment   | 1,682           | 1,607               |
| Total property, plant and equipment   | 2,345           | 2,232               |
| Less allowance for depreciation   | 1,324           | 1,284               |
| Net property, plant and equipment   | 1,021           | 948                 |
| Other assets  |                 |                     |
| Goodwill  | 2,573           | 2,142               |
| Other intangibles, net  | 1,545           | 1,424               |
| Other   | 554             | 544                 |
| Total assets  | \$14,382        | \$13,206            |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                 |                     |
| Current liabilities   |                 |                     |
| Accounts payable  | \$277           | \$288               |
| Accrued compensation  | 356             | 467                 |
| Income taxes  | 53              | 70                  |
| Dividend payable  | 100             | 101                 |
| Accrued expenses and other liabilities  | 1,156           | 934                 |
| Current maturities of debt  | 29              | 16                  |
| Total current liabilities   | 1,971           | 1,876               |
| Long-term debt, excluding current maturities  | 2,742           | 1,746               |
| Other liabilities   | 1,066           | 987                 |
| Shareholders' equity  |                 |                     |
| Common stock, \$0.10 par value:   |                 |                     |
| Authorized: 1 billion shares, outstanding: 378 million shares (380 million in 2012) | 38              | 38                  |
| Additional paid-in capital  | 1,124           | 1,098               |
| Retained earnings   | 7,410           | 7,332               |
| Accumulated other comprehensive income  | 31              | 129                 |
| Total shareholders' equity  | 8,603           | 8,597               |
| Total liabilities & shareholders' equity  | \$14,382        | \$13,206            |

See accompanying notes to Consolidated Financial Statements.

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

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## Stryker Corporation and Subsidiaries

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Unaudited)

|  | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total    |
|--|-----------------|----------------------------------|----------------------|---|----------|
| Balances at December 31, 2012  | \$ 38           | \$ 1,098                         | \$ 7,332             | \$ 129  | \$ 8,597 |
| Net earnings   |                 |                                  | 517                  |   | 517      |
| Other comprehensive loss   |                 |                                  |                      | (98 )   | (98 )    |
| Issuance of 2.3 million shares of common stock under<br>stock option and benefit plans, including \$4 excess<br>income tax benefit |                 | (1 )                             |                      |   | (1 )     |
| Repurchase and retirement of 3.8 million shares of<br>common stock   |                 | (11 )                            | (239 )               |   | (250 )   |
| Share-based compensation   |                 | 38                               |                      |   | 38       |
| Cash dividends declared of \$0.53 per share of common<br>stock   |                 |                                  | (200 )               |   | (200 )   |
| Balances at June 30, 2013  | \$ 38           | \$ 1,124                         | \$ 7,410             | \$ 31   | \$ 8,603 |

See accompanying notes to Consolidated Financial Statements.

In February 2013 we declared a quarterly dividend of \$0.265 per share, payable April 30, 2013 to shareholders of record at the close of business on March 28, 2013. In April 2013 we declared a quarterly dividend of \$0.265 per share, payable July 31, 2013 to shareholders of record at the close of business on June 28, 2013.

## Stryker Corporation and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

|   | Three Months Ended |         | Six Months Ended June |          |
|---|--------------------|---------|-----------------------|----------|
|   | June 30            |         | 30                    |          |
|   | 2013               | 2012    | 2013                  | 2012     |
| Operating activities  |                    |         |                       |          |
| Net earnings  | \$213              | \$325   | \$517                 | \$675    |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                    |         |                       |          |
| Depreciation  | 43                 | 38      | 81                    | 77       |
| Intangible asset amortization   | 36                 | 31      | 68                    | 62       |
| Share-based compensation  | 18                 | 18      | 38                    | 39       |
| Restructuring charges   | 10                 | 19      | 24                    | 33       |
| Sale of inventory stepped up to fair value at acquisition                           | 8                  | 3       | 8                     | 15       |
| Changes in operating assets and liabilities, net of effects of acquisitions:        |                    |         |                       |          |
| Accounts receivable   | (18                | ) 73    | (11                   | ) 25     |
| Inventories   | (25                | ) (1    | ) (63                 | ) (30    |
| Accounts payable  | (21                | ) (9    | ) (30                 | ) (44    |
| Accrued expenses and other liabilities  | 269                | 19      | 157                   | (183     |
| Income taxes  | (141               | ) (84   | ) (150                | ) (127   |
| Other   | (36                | ) 25    | (47                   | ) (50    |
| Net cash provided by operating activities   | 356                | 457     | 592                   | 492      |
| Investing activities  |                    |         |                       |          |
| Acquisitions, net of cash acquired  | (62                | ) (1    | ) (662                | ) (10    |
| Purchases of marketable securities  | (1,843             | ) (356  | ) (2,616              | ) (1,570 |
| Proceeds from sales of marketable securities  | 754                | 792     | 1,816                 | 1,944    |
| Purchases of property, plant and equipment  | (47                | ) (51   | ) (96                 | ) (103   |
| Net cash (used in) provided by investing activities                                 | (1,198             | ) 384   | (1,558                | ) 261    |
| Financing activities  |                    |         |                       |          |
| Proceeds from borrowings  | 102                | 50      | 1,162                 | 94       |
| Payments on borrowings  | (100               | ) (55   | ) (151                | ) (93    |
| Dividends paid  | (100               | ) (81   | ) (201                | ) (162   |
| Repurchase and retirement of common stock   | —                  | (39     | ) (250                | ) (89    |
| Other   | 5                  | (23     | ) (2                  | ) (26    |
| Net cash (used in) provided by financing activities                                 | (93                | ) (148  | ) 558                 | (276     |
| Effect of exchange rate changes on cash and cash equivalents                        | (7                 | ) 10    | (16                   | ) 11     |
| Change in cash and cash equivalents   | \$(942             | ) \$703 | \$(424                | ) \$488  |

See accompanying notes to Consolidated Financial Statements.



## Stryker Corporation and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2013

## NOTE 1 - BASIS OF PRESENTATION

## General Information

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. As a result, 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, 2012.

Management believes that the accompanying unaudited Consolidated Financial Statements reflect all adjustments, including normal recurring items, considered necessary for a fair presentation of the interim periods. The results of operations for the three- and six- month periods ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013. The balance sheet at December 31, 2012 has been derived from the audited Consolidated Financial Statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

## NOTE 2 - ACCUMULATED OTHER COMPREHENSIVE INCOME (AOCI)

Changes in and reclassifications out of AOCI, net of tax, for the three- and six-month periods ended June 30, 2013 were as follows:

|   | Foreign Currency Translation |            | Marketable Securities Unrealized Gain (Loss) |            | Defined Benefit Pension Plans |            | Total AOCI   |            |
|---|------------------------------|------------|--|------------|-------------------------------|------------|--------------|------------|
|   | Three Months                 | Six Months | Three Months                                 | Six Months | Three Months                  | Six Months | Three Months | Six Months |
|   | Beginning balance            | \$112      | \$226  | \$3        | \$4                           | \$(98)     | \$(101)      | \$17       |
| Other Comprehensive Income (OCI) before reclassifications | 20                           | (94)       | (1)  | 1          | (1)                           | —          | 18           | (93)       |
| Amounts reclassified from AOCI                            | —                            | —          | (4)  | (7)        | —                             | 2          | (4)          | (5)        |
| Net current-period OCI                                    | 20                           | (94)       | (5)  | (6)        | (1)                           | 2          | 14           | (98)       |
| Balance at June 30, 2013                                  | \$132                        | \$132      | \$(2)  | \$(2)      | \$(99)                        | \$(99)     | \$31         | \$31       |

The following items were reclassified out of AOCI into earnings for the three- and six-month periods ended June 30, 2013:

| Detail of AOCI Components                                    | Three Months                  |   | Six Months                    |   |
|--|-------------------------------|---|-------------------------------|---|
|  | Amount Reclassified from AOCI | Affected Line Item in the Consolidated Statements of Earnings | Amount Reclassified from AOCI | Affected Line Item in the Consolidated Statements of Earnings |
| Unrealized gains on available-for-sale marketable securities | \$(4)                         | Other (income) expense  | \$(9)                         | Other (income) expense  |
|  | —                             | Income tax expense  | 2                             | Income tax expense  |
|  | \$(4)                         | Net of tax  | \$(7)                         | Net of tax  |
| Amortization of defined benefit pension items:               |                               |   |                               |   |
|  | \$1                           | Cost of sales   | \$3                           | Cost of sales   |
|  | (1)                           | Income tax benefit  | (1)                           | Income tax benefit  |
| Actuarial losses   | \$—                           | Net of tax  | \$2                           | Net of tax  |

## NOTE 3 - FAIR VALUE MEASUREMENTS

Accounting guidance on fair value measurements for certain financial assets and liabilities requires that financial assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs reflecting the reporting entity's own assumptions or external inputs from active markets.

When applying fair value principles in the valuation of assets and liabilities, we are required to maximize the use of quoted market prices and minimize the use of unobservable inputs. 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. There were no significant transfers into or out of Level 1 or Level 2 that occurred between December 31, 2012 and June 30, 2013. The fair value of our Level 3 assets and liabilities are calculated as the net present value of expected cash flows based on externally provided or obtained inputs. Certain Level 3 assets may also be based on sale prices of similar assets. Our fair value calculations take into consideration our credit risk and that of our counterparties. Should a counterparty default, our maximum exposure to loss is the asset balance of the instrument. We did not change our valuation techniques used in measuring the fair value of any financial assets and liabilities during the period.

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

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Valuation of assets and liabilities measured at fair value:

|  | Total     |               | Level 1   |               | Level 2   |               | Level 3   |               |
|--|-----------|---------------|-----------|---------------|-----------|---------------|-----------|---------------|
|  | June 2013 | December 2012 | June 2013 | December 2012 | June 2013 | December 2012 | June 2013 | December 2012 |
| <b>Assets:</b>                                   |           |               |           |               |           |               |           |               |
| Cash and cash equivalents                        | \$971     | \$ 1,395      | \$971     | \$ 1,395      | \$—       | \$—           | \$—       | \$—           |
| Available-for-sale marketable securities         |           |               |           |               |           |               |           |               |
| Corporate and asset-backed debt securities       | 1,681     | 1,280         | —         | —             | 1,681     | 1,280         | —         | —             |
| Foreign government debt securities               | 791       | 848           | —         | —             | 791       | 848           | —         | —             |
| United States agency debt securities             | 621       | 288           | —         | —             | 621       | 288           | —         | —             |
| United States treasury debt securities           | 404       | 343           | —         | —             | 404       | 343           | —         | —             |
| Certificates of deposit                          | 152       | 114           | —         | —             | 152       | 114           | —         | —             |
| Other  | 32        | 17            | —         | —             | 32        | 17            | —         | —             |
| Total available-for-sale marketable securities   | 3,681     | 2,890         | —         | —             | 3,681     | 2,890         | —         | —             |
| Trading marketable securities                    | 62        | 57            | 62        | 57            | —         | —             | —         | —             |
| Foreign currency exchange contracts <sup>1</sup> | 1         | 3             | —         | —             | 1         | 3             | —         | —             |
|  | \$4,715   | \$ 4,345      | \$ 1,033  | \$ 1,452      | \$3,682   | \$ 2,893      | \$—       | \$—           |
| <b>Liabilities:</b>                              |           |               |           |               |           |               |           |               |
| Deferred compensation arrangements               | \$62      | \$ 57         | \$62      | \$ 57         | \$—       | \$—           | \$—       | \$—           |
| Contingent consideration                         | 69        | 103           | —         | —             | —         | —             | 69        | 103           |
| Foreign currency exchange contracts <sup>2</sup> | 1         | 1             | —         | —             | 2         | 1             | —         | —             |
|  | \$133     | \$ 161        | \$62      | \$ 57         | \$2       | \$ 1          | \$69      | \$ 103        |

Rollforward of assets and liabilities measured at fair value using unobservable inputs (Level 3):

|  | Total     |               | Corporate and Asset-Backed Debt Securities |               | Contingent Consideration |               |
|--|-----------|---------------|--|---------------|--------------------------|---------------|
|  | June 2013 | December 2012 | June 2013                                  | December 2012 | June 2013                | December 2012 |
| Balance at the beginning of the period | \$(103 )  | \$(114 )      | \$—  | \$1           | \$(103 )                 | \$(115 )      |
| Transfers into Level 3                 | —         | —             | —  | —             | —                        | —             |
| Transfers out of Level 3               | —         | —             | —  | —             | —                        | —             |
| Gains or (losses) included in earnings | 5         | 6             | —  | —             | 5                        | 6             |
| Sales                                  | —         | (1 )          | —  | (1 )          | —                        | —             |
| Settlements                            | 29        | 39            | —  | —             | 29                       | 39            |
| Other                                  | —         | (33 )         | —  | —             | —                        | (33 )         |
| Balance at the end of the period       | \$(69 )   | \$(103 )      | \$—  | \$—           | \$(69 )                  | \$(103 )      |

The estimated fair value of the liability for contingent consideration represents milestone payments for acquisitions. The fair value of these liabilities were estimated using a discounted cash flow technique. Significant inputs to this technique included our probability assessments of the occurrence of triggering events, appropriately discounted considering the uncertainties associated with the obligation. We remeasure these liabilities each reporting period and record the changes in the fair value in selling, general and administrative expense for changes in probability of occurrence and other income (expense) for changes in time value of money.

Quantitative information about the inputs and valuation methodologies we use for material fair value measurements classified in Level 3 at June 30, 2013:

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|  | Fair Value     | Valuation<br>Technique  | Unobservable Input           | Probability Range (Weighted<br>Average) |                              | Weighted<br>Average |                         |                  |
|--|----------------|-------------------------|------------------------------|---|------------------------------|---------------------|-------------------------|------------------|
|  |                |                         |                              | Minimum                                 | Maximum                      |                     |                         |                  |
| Contingent consideration   | \$69           | Discounted cash<br>flow | Probability of<br>occurrence | 85                                      | 100                          | 98                  |                         |                  |
| Summary of marketable securities at June 30, 2013 and December 31, 2012: |                |                         |                              |   |                              |                     |                         |                  |
|  | Amortized Cost |                         | Gross Unrealized<br>Gains    |   | Gross Unrealized<br>(Losses) |                     | Estimated Fair<br>Value |                  |
|  | June<br>2013   | December<br>2012        | June<br>2013                 | December<br>2012                        | June<br>2013                 | December<br>2012    | June<br>2013            | December<br>2012 |
| Available-for-sale marketable securities:                                |                |                         |                              |   |                              |                     |                         |                  |
| Corporate and asset-backed debt securities                               | \$1,683        | \$1,277                 | \$2                          | \$4                                     | \$(4)                        | \$(1)               | \$1,681                 | \$1,280          |
| Foreign government debt securities                                       | 793            | 846                     | —                            | 2                                       | (2)                          | —                   | 791                     | 848              |
| United States agency debt securities                                     | 622            | 288                     | —                            | —                                       | (1)                          | —                   | 621                     | 288              |
| United States treasury debt securities                                   | 404            | 343                     | —                            | —                                       | —                            | —                   | 404                     | 343              |
| Certificates of deposit  | 152            | 114                     | —                            | —                                       | —                            | —                   | 152                     | 114              |
| Other  | 32             | 17                      | —                            | —                                       | —                            | —                   | 32                      | 17               |
| Total available-for-sale marketable securities                           | \$3,686        | \$2,885                 | \$2                          | \$6                                     | \$(7)                        | \$(1)               | \$3,681                 | 2,890            |
| Trading marketable securities  |                |                         |                              |   |                              |                     | 62                      | 57               |
| Total marketable securities  |                |                         |                              |   |                              |                     | \$3,743                 | \$2,947          |
| Reported as:   |                |                         |                              |   |                              |                     |                         |                  |
| Current assets-marketable securities                                     |                |                         |                              |   |                              |                     | \$3,681                 | \$2,890          |
| Noncurrent assets-other  |                |                         |                              |   |                              |                     | 62                      | 57               |
|  |                |                         |                              |   |                              |                     | \$3,743                 | \$2,947          |

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

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The unrealized losses on available-for-sale marketable securities at June 30, 2013 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). Because 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, we do not consider these investments to be other-than-temporarily impaired at June 30, 2013.

The cost and estimated fair value of available-for-sale marketable securities at June 30, 2013 by contractual maturity are:

|  | Cost    | Estimated Fair Value |
|--|---------|----------------------|
| Due in one year or less                | \$769   | \$767                |
| Due after one year through three years | 306     | 306                  |
| Due after three years                  | 2,611   | 2,608                |
|  | \$3,686 | \$3,681              |

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 June 30, 2013 are:

|                       | Corporate and Asset-Backed Debt Securities |         | Foreign Government Debt Securities |        | United States Agency Debt Securities |        | Other               |       | Total               |         |
|-----------------------|--|---------|------------------------------------|--------|--------------------------------------|--------|---------------------|-------|---------------------|---------|
|                       | Less Than 12 Months                        | Total   | Less Than 12 Months                | Total  | Less Than 12 Months                  | Total  | Less Than 12 Months | Total | Less Than 12 Months | Total   |
| Number of investments | 491  | 491     | 127                                | 127    | 129                                  | 129    | 13                  | 13    | 760                 | 760     |
| Fair value            | \$1,073                                    | \$1,073 | \$620                              | \$620  | \$656                                | \$656  | \$30                | \$30  | \$2,379             | \$2,379 |
| Unrealized losses     | \$(4 )                                     | \$(4 )  | \$(1 )                             | \$(1 ) | \$(2 )                               | \$(2 ) | \$—                 | \$—   | \$(7 )              | \$(7 )  |

Upon the sale of a security classified as available-for-sale, the security's specific unrealized gain (loss) is reclassified out of AOCI into earnings based on the specific identification method.

Interest and marketable securities income was \$5 and \$13 for the three months ended June 30, 2013 and 2012, respectively, and \$11 and \$25 for the six months ended June 30, 2013 and 2012, respectively, and is included in other income (expense).

**NOTE 4 - DERIVATIVE INSTRUMENTS AND HEDGING STRATEGIES**

The estimated fair value of our forward currency exchange contracts represents the measurement of the contracts at month-end spot rates as adjusted by current forward points. 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.

Foreign currency transaction losses recognized in other income (expense) totaled (\$3) and (\$2) for the three months ended June 30, 2013 and 2012, respectively, and (\$4) and (\$2) for the six months ended June 30, 2013 and 2012, respectively, and outstanding derivative contracts at June 30, 2013 were:

|                                     | Notional Amount | Assets | Liabilities | Maximum Term (Days) |
|-------------------------------------|-----------------|--------|-------------|---------------------|
| Forward currency exchange contracts | \$1,660         | \$1    | \$2         | 92                  |

**NOTE 5 - CONTINGENCIES**

We are involved in various ongoing proceedings, legal actions and claims arising in the normal course of business, including proceedings related to product, labor and intellectual property and other matters. The outcomes of certain of these matters will not be known for prolonged periods of time. To partially mitigate losses arising from unfavorable

outcomes in such matters, we purchase third-party insurance coverage subject to certain deductibles and loss limitations. Future operating results may be unfavorably impacted by any settlement payments or losses beyond the amounts of insurance carried. In addition, such matters may negatively impact our ability to obtain cost effective third-party insurance coverage in future periods. 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 cost, 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. 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 future operating results. 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.

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

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In 2007 we disclosed that the United States Securities and Exchange Commission (SEC) made an inquiry of us regarding possible violations of the Foreign Corrupt Practices Act in connection with the sale of medical devices in certain foreign countries. The investigation is ongoing and we are fully cooperating with the SEC regarding these matters.

We have recorded charges totaling \$94 related to the above DOJ and SEC regulatory matters, including \$59 in the six months ended June 30, 2013. The final outcome of these matters is difficult to predict, and the ultimate cost to resolve these matters 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 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 and the associated costs. The ultimate total cost with respect to this matter will depend on many factors that are difficult to predict with the limited information received to date 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, we estimate the probable loss to resolve this matter to be in the range of approximately \$400 to \$660, before third-party insurance recoveries. In the six months ended June 30, 2013 we recorded charges to earnings of \$210 representing the excess of the \$400 minimum of the range over the previously recorded reserves. No contingent gain for third-party recoveries was recorded as of June 30, 2013. 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.

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. The Wisconsin lawsuit was subsequently transferred to the United States District Court in Indiana. The suits allege infringement under United States patent laws with respect to certain patient handling equipment we manufactured and sold and seek damages and permanent injunctions. The first lawsuit involved ten patents related to the use of a motorized wheel for hospital beds and stretchers. We have entered into an agreement settling that lawsuit. This agreement included a payment to Hill-Rom of \$3.75, a covenant not to sue and a cross-license. 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, which are currently under reexamination by the United States Patent Office. With respect to the suit and the three remaining patents, we continue to vigorously defend ourselves. The ultimate resolution of the second suit may have no relation to the resolution of the first suit and cannot be predicted; however, the ultimate cost 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.

In 2007 the United States Department of Health and Human Services, Office of Inspector General (HHS) issued us a civil subpoena seeking to determine whether we violated various laws by paying consulting fees and providing other

things of value to orthopedic surgeons and healthcare and educational institutions as inducements to use Stryker's orthopedic medical devices in procedures paid for in whole or in part by Medicare. We have produced numerous documents and other materials to HHS in response to the subpoena.

**NOTE 6 - ACQUISITIONS**

On March 1, 2013, we acquired Trauson Holdings Company Limited (Trauson) in an all cash transaction totaling \$751. The acquisition of Trauson will enhance our product offerings, primarily within our Reconstructive segment, broaden our presence in China and enable us to expand into the fast growing value segment of the emerging markets. The effect of the acquisition has been included in our Consolidated Financial Statements prospectively from the date of acquisition. Pro forma consolidated results of operations for the periods ended June 30, 2013 and December 31, 2012 would not differ significantly as a result of the acquisition. The purchase price allocation is based upon a preliminary valuation, and our estimates and assumptions are subject to change within the measurement period as the valuation is finalized. In the three-month period ended June 30, 2013, revisions to our estimates included an increase to customer relationship intangible assets of \$47, an increase to liabilities of \$14, and a reduction to goodwill of \$29.

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

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The preliminary allocation of the purchase price to the acquired net assets of Trauson is as follows:

|                                   |  |         |   |
|-----------------------------------|--|---------|---|
| Total purchase consideration      |  | Trauson |   |
|                                   |  | \$751   |   |
| Tangible assets acquired:         |  |         |   |
| Inventory                         |  | 43      |   |
| Other assets                      |  | 169     |   |
| Liabilities                       |  | (87     | ) |
| Identifiable intangible assets:   |  |         |   |
| Customer relationship             |  | 119     |   |
| Trade name                        |  | 18      |   |
| Developed technology              |  | 32      |   |
| In-process research & development |  | 5       |   |
| Goodwill                          |  | 452     |   |
|                                   |  | \$751   |   |

#### NOTE 7 - LONG-TERM DEBT AND CREDIT FACILITIES

Our debt is summarized as follows:

|  | June 30 | December 31 |
|--|---------|-------------|
|  | 2013    | 2012        |
| 3.00% senior unsecured notes, due January 15, 2015   | \$500   | \$500       |
| 4.375% senior unsecured notes, due January 15, 2020  | 498     | 497         |
| 2.00% senior unsecured notes, due September 30, 2016 | 749     | 749         |
| 1.30% senior unsecured notes, due April 1, 2018      | 598     | —           |
| 4.10% senior unsecured notes, due April 1, 2043      | 394     | —           |
| Other  | 32      | 16          |
| Total debt   | 2,771   | 1,762       |
| Less current maturities                              | (29     | ) (16       |
| Long-term debt                                       | \$2,742 | \$1,746     |

In March 2013 we completed a public offering of \$600 in 1.30% Notes due April 1, 2018, net of an offering discount of \$3 (2018 Notes), and \$400 in 4.10% Notes due April 1, 2043, net of an offering discount of \$6 (2043 Notes and, together with the 2018 Notes, the Notes). Interest on the Notes is payable on April 1 and October 1 of each year, commencing on October 1, 2013. Unless previously redeemed, the 2018 Notes will mature on April 1, 2018 and the 2043 Notes will mature on April 1, 2043. We intend to use the net proceeds from the Notes for working capital and other general corporate purposes, including acquisitions, stock repurchases and other business opportunities.

Certain of our credit facilities require us to comply with certain financial and other covenants. We were in compliance with all covenants at June 30, 2013. We have lines of credit, issued by various financial institutions, available to fund our day-to-day operating needs. At June 30, 2013, we had \$1,047 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 June 30, 2013.

At June 30, 2013, the total unamortized debt issuance costs incurred in connection with our outstanding notes were \$18. The fair value of long-term debt (including current maturities) at June 30, 2013 and December 31, 2012 was \$2,795 and \$1,866, respectively, based on the quoted interest rates for similar types and amounts of borrowing agreements.

#### NOTE 8 - CAPITAL STOCK

In December of 2012, 2011 and 2010, we announced that our Board of Directors had authorized us to purchase up to \$405, \$500 and \$500, respectively, of our common stock (the 2012, 2011 and 2010 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 the first six months of 2013 we repurchased 1.4 million shares at a cost of \$95 under the 2010 Repurchase Program and 2.4 million shares at a cost of \$155 under the 2011 Repurchase Program. The repurchase activity was attributable to our Accelerated Share Repurchase (ASR) program, which was completed in April of 2013.

As of June 30, 2013, the 2010 Repurchase Program was complete and the maximum dollar value of shares that may yet be purchased under the 2011 Repurchase Program was \$345. We had not made any repurchases pursuant to the 2012 Repurchase Program at June 30, 2013. Shares repurchased under the share repurchase programs are available for general corporate purposes, including offsetting dilution associated with stock option and other equity-based employee benefit plans. At June 30, 2013, the maximum dollar value of shares that may be purchased under the authorized Repurchase Programs was \$750.

## NOTE 9 - RESTRUCTURING CHARGES

In the six months ended June 30, 2013, we recorded \$14 in severance and related costs in connection with the continuation of a focused reduction of our global workforce and other restructuring activities expected to reduce our global workforce by approximately 5%. The targeted reductions and other restructuring activities were initiated to provide efficiencies and realign resources in advance of the new Medical Device Excise Tax, as well as to allow for continued investment in strategic areas and drive growth. In addition, in the six months ended June 30, 2013 we recorded \$10 in contractual and other obligations, as certain of our restructuring actions resulted in the exit of certain lease and other commitments. The restructuring charges that we recorded in 2012 and 2011 are described in Note 9 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2012. We expect our current restructuring actions and related cash payments will be completed by the end of 2013. Rollforward of restructuring liability balance and six months of restructuring activity for 2013 is as follows:

|                     | Total | Agent<br>Conversions | Severance and<br>Related Costs | Contractual Obligations<br>and Other |
|---------------------|-------|----------------------|--------------------------------|--------------------------------------|
| January 1 Balance   | \$40  | \$5                  | \$20                           | \$15                                 |
| Charges to earnings | 24    | —                    | 14                             | 10                                   |
| Cash paid           | (33   | ) (3                 | ) (16                          | ) (14                                |
| Other adjustments   | (3    | ) —                  | (2                             | ) (1                                 |
| June 30 Balance     | \$28  | \$2                  | \$16                           | \$10                                 |

## NOTE 10 - SEGMENT INFORMATION

We segregate our operations into three reportable business segments: Reconstructive, MedSurg, and Neurotechnology and Spine. Our reportable segments are business units that offer different products and services and are managed separately because each business requires different manufacturing, technology and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies found in Note 1 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2012.

Net sales and net earnings by business segment for the three- and six-month periods ended June 30, 2013 and 2012 are as follows:

|   | Reconstructive           |                     | MedSurg                  |                     | Neurotechnology and<br>Spine |                        |                       |                     | Total |       |       |       |         |         |         |         |
|---|--------------------------|---------------------|--------------------------|---------------------|------------------------------|------------------------|-----------------------|---------------------|-------|-------|-------|-------|---------|---------|---------|---------|
|   | Three<br>Months<br>Ended | Six Months<br>Ended | Three<br>Months<br>Ended | Six Months<br>Ended | Three<br>Months<br>Ended     | Six<br>Months<br>Ended | Three Months<br>Ended | Six Months<br>Ended |       |       |       |       |         |         |         |         |
| Net sales   | \$979                    | \$927               | \$1,948                  | \$1,885             | \$819                        | \$786                  | \$1,643               | \$1,607             | \$414 | \$393 | \$811 | \$775 | \$2,212 | \$2,106 | \$4,402 | \$4,267 |
| Segment net earnings                              | 231                      | 223                 | 460                      | 456                 | 150                          | 149                    | 304                   | 309                 | 62    | 71    | 129   | 139   | \$443   | \$443   | \$893   | \$904   |
| Less: other (net of income taxes)                 |                          |                     |                          |                     |                              |                        |                       |                     |       |       |       |       |         |         |         |         |
| Other Acquisition and integration related charges |                          |                     |                          |                     |                              |                        |                       |                     |       |       |       |       | (63     | ) (68   | ) (119  | ) (150  |
| Restructuring and related charges                 |                          |                     |                          |                     |                              |                        |                       |                     |       |       |       |       | (15     | ) (5    | ) (32   | ) (22   |
|   |                          |                     |                          |                     |                              |                        |                       |                     |       |       |       |       | (10     | ) (12   | ) (21   | ) (24   |

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|                                      |         |         |       |       |
|--------------------------------------|---------|---------|-------|-------|
| Rejuvenate /<br>ABG II hip<br>recall | (120 )— | (152 )— |       |       |
| Regulatory<br>matter<br>charges      | (22 )   | (33 )   | (52 ) | (33 ) |
| Net earnings                         | \$213   | \$325   | \$517 | \$675 |

Other than assets associated with the acquisition of Trauson, which are discussed in greater detail in Note 6, 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, 2012.

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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; adjusted gross profit; cost of sales excluding specified items; adjusted selling, general and administrative expenses; 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 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 earnings performance on a consistent and comparable basis, we exclude certain items that affect the comparability of operating results and the trend of earnings. 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, 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.

ABOUT STRYKER

Stryker is one of the world's leading medical technology companies, with 2012 revenues of \$8,657 and net earnings of \$1,298. 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.

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.

Revenues in the United States accounted for 65.9% and 64.9% of total revenues in the first six months of 2013 and 2012, respectively, and international revenues accounted for 34.1% and 35.1% of total revenues in the first six months of 2013 and 2012, respectively.

RESULTS OF OPERATIONS

Consolidated results of operations for the three- and six-month periods ended June 30, 2013 and 2012 were:

|  | Three Months |         |             | Six Months |         |             |
|--|--------------|---------|-------------|------------|---------|-------------|
|  | 2013         | 2012    | %<br>Change | 2013       | 2012    | %<br>Change |
| Net Sales                                      | \$2,212      | \$2,106 | 5.0         | \$4,402    | \$4,267 | 3.2         |
| Gross profit                                   | 1,482        | 1,434   | 3.3         | 2,959      | 2,886   | 2.5         |
| Research, development and engineering expenses | 132          | 116     | 13.8        | 261        | 228     | 14.5        |

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|  |        |        |         |        |        |         |
|--|--------|--------|---------|--------|--------|---------|
| Selling, general and administrative expenses | 1,015  | 823    | 23.3    | 1,931  | 1,642  | 17.6    |
| Intangible asset amortization                | 36     | 31     | 16.1    | 68     | 62     | 9.7     |
| Restructuring charges                        | 9      | 19     | (52.6 ) | 23     | 33     | (30.3 ) |
| Other income (expense)                       | (21)   | (10)   | 110.0   | (32)   | (18)   | 77.8    |
| Income taxes                                 | 56     | 110    | (49.1 ) | 127    | 228    | (44.3 ) |
| Net earnings                                 | \$213  | \$325  | (34.5 ) | \$517  | \$675  | (23.4 ) |
| Diluted net earnings per share               | \$0.56 | \$0.85 | (34.1 ) | \$1.35 | \$1.76 | (23.3 ) |

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Geographic and segment net sales for the three- and six-month periods ended June 30, 2013 and 2012 were:

|                           | Three Months |         | Percentage Change<br>2013/2012 |                      | Six Months |         | Percentage Change<br>2013/2012 |                      |
|---------------------------|--------------|---------|--------------------------------|----------------------|------------|---------|--------------------------------|----------------------|
|                           | 2013         | 2012    | Reported                       | Constant<br>Currency | 2013       | 2012    | Reported                       | Constant<br>Currency |
| Geographic sales:         |              |         |                                |                      |            |         |                                |                      |
| United States             | \$1,458      | \$1,384 | 5.4                            | 5.4                  | \$2,899    | \$2,768 | 4.7                            | 4.7                  |
| International             | 754          | 722     | 4.2                            | 8.6                  | 1,503      | 1,499   | 0.3                            | 4.2                  |
| Total net sales           | \$2,212      | \$2,106 | 5.0                            | 6.5                  | \$4,402    | \$4,267 | 3.2                            | 4.5                  |
| Segment sales:            |              |         |                                |                      |            |         |                                |                      |
| Reconstructive            | \$979        | \$927   | 5.6                            | 7.6                  | \$1,948    | \$1,885 | 3.3                            | 5.2                  |
| MedSurg                   | 819          | 786     | 4.2                            | 4.8                  | 1,643      | 1,607   | 2.2                            | 2.8                  |
| Neurotechnology and Spine | 414          | 393     | 5.4                            | 7.5                  | 811        | 775     | 4.7                            | 6.6                  |
| Total net sales           | \$2,212      | \$2,106 | 5.0                            | 6.5                  | \$4,402    | \$4,267 | 3.2                            | 4.5                  |

Net sales increased 5.0% for the three-month period ended June 30, 2013 from 2012. Net sales grew 7.8% as a result of increased unit volume and changes in product mix and 0.6% due to acquisitions. Net sales were unfavorably impacted by 1.9% due to changes in price and 1.5% due to the unfavorable impact of foreign currency exchange rates on net sales. In constant currency, net sales increased by 6.5%. The increase was primarily due to higher shipments of trauma and extremities products, medical products, knees and hips.

Net sales increased 3.2% for the six-month period ended June 30, 2013 from 2012. Net sales grew 5.8% as a result of increased unit volume and changes in product mix and 0.4% due to acquisitions. Net sales were unfavorably impacted by 1.6% due to changes in price and 1.4% due to the unfavorable impact of foreign currency exchange rates on net sales. In constant currency, net sales increased by 4.5%. The increase was primarily due to higher shipments of trauma and extremities products, neurotechnology, and medical products; these gains were partially offset by slowness in the European markets, pricing impacts for spine products as well as pricing in the Japanese markets.

Supplemental sales growth information for the three- and six-month periods ended June 30, 2013 and 2012:

|                                 | Three Months |       |                |                      | Six Months     |                |                      |       |       |                |                      |                |                |                      |                |                      |
|---------------------------------|--------------|-------|----------------|----------------------|----------------|----------------|----------------------|-------|-------|----------------|----------------------|----------------|----------------|----------------------|----------------|----------------------|
|                                 |              |       | % Change       |                      | U.S.           |                | International        |       |       |                | % Change             |                | U.S.           |                      | International  |                      |
|                                 | 2013         | 2012  | As<br>Reported | Constant<br>Currency | As<br>Reported | As<br>Reported | Constant<br>Currency | 2013  | 2012  | As<br>Reported | Constant<br>Currency | As<br>Reported | As<br>Reported | Constant<br>Currency | As<br>Reported | Constant<br>Currency |
| Reconstructive                  |              |       |                |                      |                |                |                      |       |       |                |                      |                |                |                      |                |                      |
| Hips                            | \$319        | \$308 | 3.5            | 6.0                  | 6.0            | 0.6            | 5.9                  | \$627 | \$620 | 1.1            | 3.4                  | 4.8            | (3.0)          | 1.7                  |                |                      |
| Knees                           | 340          | 329   | 3.4            | 4.7                  | 1.8            | 6.7            | 10.4                 | 685   | 681   | 0.6            | 1.7                  | 0.7            | 0.5            | 3.7                  |                |                      |
| Trauma and Extremities          | 266          | 233   | 14.4           | 17.0                 | 18.9           | 9.8            | 15.0                 | 532   | 476   | 11.8           | 14.2                 | 22.5           | 1.9            | 6.5                  |                |                      |
| TOTAL RECONSTRUCTIVE            | 979          | 927   | 5.6            | 7.6                  | 6.3            | 4.6            | 9.4                  | 1,948 | 1,885 | 3.3            | 5.2                  | 6.4            | (0.7)          | 3.5                  |                |                      |
| MedSurg                         |              |       |                |                      |                |                |                      |       |       |                |                      |                |                |                      |                |                      |
| Instruments                     | 315          | 314   | 0.4            | 1.4                  | 1.1            | (1.4)          | 2.2                  | 627   | 628   | (0.1)          | 0.8                  | (0.1)          | (0.2)          | 3.2                  |                |                      |
| Endoscopy                       | 274          | 264   | 4.0            | 4.6                  | 4.8            | 2.1            | 3.9                  | 552   | 543   | 1.8            | 2.5                  | 1.8            | 1.8            | 4.1                  |                |                      |
| Medical                         | 172          | 158   | 9.2            | 9.3                  | 6.3            | 22.1           | 22.5                 | 354   | 337   | 5.0            | 5.1                  | 5.3            | 3.9            | 4.7                  |                |                      |
| TOTAL MEDSURG                   | 819          | 786   | 4.2            | 4.8                  | 4.4            | 3.4            | 5.8                  | 1,643 | 1,607 | 2.2            | 2.8                  | 2.5            | 1.3            | 3.8                  |                |                      |
| Neurotechnology and Spine       |              |       |                |                      |                |                |                      |       |       |                |                      |                |                |                      |                |                      |
| Neurotechnology                 | 227          | 212   | 6.9            | 9.6                  | 9.6            | 3.1            | 9.5                  | 448   | 413   | 8.5            | 11.0                 | 11.9           | 3.8            | 9.8                  |                |                      |
| Spine                           | 187          | 181   | 3.8            | 5.0                  | 2.7            | 6.6            | 11.0                 | 363   | 362   | 0.4            | 1.6                  | 1.4            | (2.0)          | 2.1                  |                |                      |
| TOTAL NEUROTECHNOLOGY AND SPINE | 414          | 393   | 5.4            | 7.5                  | 6.0            | 4.4            | 10.1                 | 811   | 775   | 4.7            | 6.6                  | 6.4            | 1.6            | 6.9                  |                |                      |

Reconstructive net sales in the three-month period increased 5.6%, due to a 9.9% increase in unit volume and changes in product mix and 1.1% due to acquisitions. Net sales were unfavorably impacted by 3.4% due to changes in price and 2.0% due to the unfavorable impact of foreign currency exchange rates on net sales. In constant currency, net sales increased 7.6%, primarily due to increases in trauma and extremities products worldwide. For the six-month period, net sales increased 3.3%, due to a 7.5% increase in unit volume and changes in product mix and 0.6% due to acquisitions. Net sales were unfavorably impacted by 3.0% due to changes in price and 1.8% due to the unfavorable impact of foreign currency exchange rates on net sales. In constant currency, net sales in the six-month period increased 5.2%, primarily due to sales growth in trauma and extremities products as well as hips and knees.

MedSurg net sales in the three-month period increased 4.2% due to a 4.8% increase in unit volume and changes in product mix. Net sales were unfavorably impacted by 0.6% due to the impact of foreign currency exchange rates on net sales and 0.1% due to changes in price. In constant currency, net sales in the three-month period increased 4.2%, led by higher medical product shipments. Net sales in the six-month period increased 2.2% due to a 2.6% increase in unit volume and changes in product mix and favorable pricing

impacts of 0.2%. Net sales were unfavorably impacted by 0.6% due to the impact of foreign currency exchange rates on net sales. In constant currency, net sales in the six-month period increased 2.8%, led by higher medical product shipments.

Neurotechnology and Spine net sales in the three-month period increased 5.4%, primarily due to an 8.8% increase in unit volume and changes in product mix and 0.8% due to acquisitions. Net sales were unfavorably impacted by 2.1% due to changes in price and 2.0% due to the unfavorable impact of foreign currency exchange rates on net sales. In constant currency, net sales in the three-month period increased 7.5%, with higher shipments of neurotechnology products offset by slowness in the spine markets. Net sales in the six-month period increased 4.7%, primarily due to a 8.2% increase in unit volume and changes in product mix and 0.5% due to acquisitions. Net sales were unfavorably impacted by 2.1% due to changes in price and 1.9% due to the unfavorable impact of foreign currency exchange rates on net sales. In constant currency, net sales in the six-month period increased 6.6%, with higher shipments of neurotechnology products offset by slowness in the spine markets.

#### Cost of Sales

Cost of sales increased 8.6% and 4.5% for the three- and six-month periods to 33.0% and 32.8% of sales, respectively, compared to 31.9% and 32.4% of sales for the three- and six-month periods, respectively, in 2012. Cost of sales increased 2.5% and 2.9% in the three- and six-month periods due to the impact of the Medical Device Excise Tax (MDET). Cost of sales also includes \$8 and \$3 for the three-month periods and \$8 and \$15 for the six-month periods of 2013 and 2012, respectively, related to inventory that was stepped up to fair value following acquisitions. Restructuring and restructuring-related costs of \$7 and \$0 were recorded in the three-month periods and \$7 and \$2 in the six-month periods of 2013 and 2012, respectively. Excluding the impact of the costs described above, cost of sales in the three-month period was 32.3% of sales compared to 31.8% in 2012 and in the six-month period was 32.4% of sales in 2013 as compared to 32.0% in 2012.

#### Research, Development and Engineering Expenses

Research, development and engineering expenses increased 13.8% to \$132, representing 6.0% of sales in the three-month period, compared to 5.5% in 2012 and increased 14.5% to \$261, representing 6.0% of sales in the six-month period, compared to 5.3% in 2012. The timing of projects for anticipated future products 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 increased by 23.3% to \$1,015, representing 45.9% of sales in the three-month period, compared to 39.1% in 2012. The three-month periods included \$10 and \$8 in 2013 and 2012, respectively, in acquisition and integration related charges; \$12 and \$19, respectively, in restructuring and restructuring-related charges; \$170 in 2013 related to the previously disclosed voluntary recall of the Rejuvenate and ABG II modular-neck hip stems; and \$19 and \$33 in 2013 and 2012, respectively, related to two previously disclosed United States regulatory matters. Excluding the impact of these charges, selling, general and administrative expenses were 36.7% of sales in 2013 compared to 37.1% in 2012.

Selling, general and administrative expenses increased by 17.6% to \$1,931, representing 43.9% of sales in the six-month period, compared to 38.5% in 2012. The six-month periods included \$32 and \$17 in 2013 and 2012, respectively, in acquisition and integration related charges; \$26 and \$33, respectively, in restructuring and restructuring-related charges; \$210 in 2013 related to the Rejuvenate and ABG II matter; and \$59 and \$33 in 2013 and 2012, respectively, related to two previously disclosed United States regulatory matters. Excluding the impact of these charges, selling, general and administrative expenses were 37.0% of sales in 2013 compared to 37.3% in 2012.

#### Restructuring Charges

Restructuring charges totaling \$10 and \$19 in the three-month periods and \$24 and \$33 in the six-month periods, in 2013 and 2012, respectively, were related to the continuation of focused reductions of our global workforce and other restructuring activities that are expected to reduce our global workforce by approximately 5% and be substantially complete by the end of 2013 at a total cost of approximately \$225. The actions were initiated in 2011 to provide efficiencies and realign resources in advance of the MDET, which began on January 1, 2013, as well as to allow for continued investment in strategic areas and drive growth.

#### Other Income (Expense)

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Other expense in the three- and six-month periods increased \$11 and \$14, respectively, from 2012, primarily as a result of lower interest income on marketable securities.

Income Taxes

Our effective income tax rate on earnings in the three-month period was 20.8% compared to 25.3% in 2012; for the six-month period, our effective income tax rate was 19.7% compared to 25.2% in 2012. In January 2013 we recorded 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

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

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extension of numerous tax provisions, including an extension of the research tax credit and other provisions for companies with significant international operations.

Net Earnings

Net earnings in the three-month period decreased to \$213 or \$0.56 per diluted share compared to \$325 or \$0.85 per diluted share in 2012. Reported net earnings includes restructuring and restructuring-related charges of \$10 and \$12 in 2013 and 2012, respectively, and acquisition and integration related charges of \$15 and \$5 in 2013 and 2012, respectively. In addition, 2013 also includes \$120 related to the previously disclosed voluntary recall of the Rejuvenate and ABG II modular-neck hip stems as well as \$22 and \$33 in 2013 and 2012, respectively, related to two previously disclosed United States regulatory matters. Excluding the impact of these items, adjusted net earnings in the three-month period increased 1.3% to \$380 or \$1.00 per diluted share. The impact of foreign currency exchange rates on net earnings reduced diluted net earnings per share by approximately \$0.04.

Net earnings in the six-month period decreased to \$517 or \$1.35 per diluted share compared to \$675 or \$1.76 per diluted share in 2012. Reported net earnings includes restructuring and restructuring-related charges of \$21 and \$24 in 2013 and 2012, respectively, and acquisition and integration related charges of \$32 and \$22 in 2013 and 2012, respectively. In addition, 2013 also includes \$152 related to the previously disclosed voluntary recall of the Rejuvenate and ABG II modular-neck hip stems as well as \$52 and \$33 in 2013 and 2012, respectively, related to two previously disclosed United States regulatory matters. Excluding the impact of these items, adjusted net earnings in the six-month period increased 2.7% to \$774 or \$2.03 per diluted share. The impact of foreign currency exchange rates on net earnings reduced diluted net earnings per share by approximately \$0.06.

The following reconciles the non-GAAP financial measures of adjusted gross profit; adjusted selling, general and administrative expense; 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<br>June 30                     | Gross Profit |         | Selling,<br>General and<br>Administrative<br>Expenses |         | Operating<br>Income |       | Net Earnings    |       | Effective Tax<br>Rate |       | Diluted EPS |        |        |      |      |
|---|--------------|---------|---|---------|---------------------|-------|-----------------|-------|-----------------------|-------|-------------|--------|--------|------|------|
|   |              |         | 2013  | 2012    |                     |       |                 |       | 2013                  | 2012  |             |        | 2013   | 2012 |      |
| AS REPORTED                                       | \$1,482      | \$1,434 | \$1,015   | \$823   | \$290               | \$445 | \$213           | \$325 | 20.8                  | %25.3 | %           | \$0.56 | \$0.85 |      |      |
| Acquisition and<br>integration related<br>charges |              |         |   |         |                     |       |                 |       |                       |       |             |        |        |      |      |
| Inventory stepped up<br>to fair value             | 8            | 3       | —   | —       | 8                   | 3     | 6               | 1     | —                     | 0.4   |             | 0.02   | —      |      |      |
| Other acquisition and<br>integration related      | —            | —       | (10   | )(8     | )                   | 10    | 8               | 9     | 4                     | (0.2  | )           | 0.3    | 0.02   | 0.01 |      |
| Restructuring and<br>related charges              | 7            | —       | (3  | )       | —                   | 19    | 19              | 10    | 12                    | 1.5   | 0.6         | 0.03   | 0.03   |      |      |
| Rejuvenate/ABG II<br>hip recall charges           | —            | —       | (170  | )       | —                   | 170   | —               | 120   | —                     | 3.8   | —           | 0.31   | —      |      |      |
| Regulatory matters                                | —            | —       | (19   | )(33    | )                   | 19    | 33              | 22    | 33                    | (2.6  | )           | (1.9   | )      | 0.06 | 0.09 |
| ADJUSTED  | \$1,497      | \$1,437 | \$813   | \$782   | \$516               | \$508 | \$380           | \$375 | 23.3                  | %24.7 | %           | \$1.00 | \$0.98 |      |      |
| Six Months Ended<br>June 30                       | Gross Profit |         | Selling, General<br>and<br>Administrative<br>Expenses |         | Operating<br>Income |       | Net<br>Earnings |       | Effective Tax<br>Rate |       | Diluted EPS |        |        |      |      |
|   |              |         | 2013  | 2012    |                     |       |                 |       | 2013                  | 2012  |             |        | 2013   | 2012 |      |
| AS REPORTED                                       | \$2,959      | \$2,886 | \$1,931   | \$1,642 | \$676               | \$921 | \$517           | \$675 | 19.7                  | %25.2 | %           | \$1.35 | \$1.76 |      |      |
| Acquisition and<br>integration related            |              |         |   |         |                     |       |                 |       |                       |       |             |        |        |      |      |

charges

|   |         |         |         |         |         |         |       |       |        |        |        |        |
|---|---------|---------|---------|---------|---------|---------|-------|-------|--------|--------|--------|--------|
| Inventory stepped up to fair value        | 8       | 15      | —       | —       | 8       | 15      | 6     | 11    | —      | 0.1    | 0.02   | 0.03   |
| Other acquisition and integration related | —       | —       | (32)    | (17)    | 32      | 17      | 26    | 11    | (0.1)  | 0.2    | 0.07   | 0.03   |
| Restructuring and related charges         | 7       | 2       | (3)     | —       | 33      | 35      | 21    | 24    | 0.6    | 0.3    | 0.06   | 0.06   |
| Rejuvenate/ABG II hip recall charges      | —       | —       | (210)   | —       | 210     | —       | 152   | —     | 2.0    | —      | 0.40   | —      |
| Regulatory matters                        | —       | —       | (59)    | (33)    | 59      | 33      | 52    | 33    | (0.7)  | (0.9)  | 0.13   | 0.09   |
| ADJUSTED                                  | \$2,974 | \$2,903 | \$1,627 | \$1,592 | \$1,018 | \$1,021 | \$774 | \$754 | 21.5 % | 24.9 % | \$2.03 | \$1.97 |

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 from operations totaled \$356 and \$592 in the three- and six-month periods ended June 30, 2013, compared to \$457 and \$492, respectively, in 2012. Operating cash flow resulted primarily from net earnings adjusted for non-cash items (depreciation and amortization, share-based compensation, deferred income taxes and charges for product recall and regulatory matters). The reduction of cash from operations in the three-month period was due primarily to the net of accounts receivable, inventory and accounts payable, which consumed \$64 of cash in 2013 compared to generating \$63 of cash in 2012, contributing a \$127 reduction of cash from operations from 2012. In the six-month period the net of accounts receivable, inventory and accounts payable consumed \$104 in 2013 compared to a consumption of \$49 in 2012, contributing a \$55 reduction of cash from operations from 2012.

The impact of the timing of sales in each period resulted in the use of \$18 of cash in 2013 for accounts receivable compared to the generation of \$73 in 2012, while accounts receivable days outstanding held constant compared to 2012. Accounts receivable days

outstanding increased by 3 days at June 2013 from December 2012. Inventory days on hand increased 13 days at June 2013 from December 2012, but improved by 8 days from June 2012.

#### Investing Activities

Net investing activities consumed \$1,558 of cash and provided \$261 of cash in the six-month periods in 2013 and 2012, respectively.

Acquisitions. Acquisitions used \$662 and \$10 of cash in the six-month periods in 2013 and 2012, respectively. Cash used in 2013 was primarily for the acquisition of Trauson Holdings Company Limited.

Capital Spending. We manage capital spending to support our business growth. Capital expenditures, primarily to support integration of acquisitions, capacity expansion, new product introductions, innovation and cost savings, were \$96 and \$103 in the six-month periods in 2013 and 2012, respectively.

Marketable Securities. Cash of \$800 was used for the purchase of marketable securities in the six-month period in 2013 compared to \$374 of cash generated from the sale of marketable securities in 2012.

#### Financing Activities

Dividend Payments. Dividends paid per common share increased 24.7% to \$0.53 per share in the six-month period in 2013 compared to \$0.425 in 2012. Total dividend payments to common shareholders were \$201 and \$162 in 2013 and 2012, respectively.

Long-Term and Short-Term Debt. Net proceeds from borrowings for the six-month periods were \$1,011 and \$1 in 2013 and 2012, respectively. We maintain debt levels we consider appropriate after evaluation of a number of factors, including cash flow expectations, cash requirements for ongoing operations, investment and financing plans and overall cost of capital. In March 2013 we completed a public offering of \$600 in 1.30% Notes due April 1, 2018, net of an offering discount of \$3 (2018 Notes), and \$400 in 4.10% Notes due April 1, 2043, net of an offering discount of \$6 (2043 Notes and, together with the 2018 Notes, the Notes).

Share Repurchases. Total use of cash for share repurchases was \$250 and \$89 for the six-month periods in 2013 and 2012, respectively. The 2013 repurchases were pursuant to our Accelerated Share Repurchase program, which was completed in April of 2013.

#### Liquidity

Cash, cash equivalents and marketable securities were \$4,652 at June 30, 2013 and \$4,285 at December 31, 2012 and current assets exceeded current liabilities by \$6,718 at June 30, 2013 and \$6,272 at December 31, 2012. We anticipate being able to support our short-term liquidity and operating needs largely through cash generated from operations. We have strong short- and long-term debt ratings that we believe should enable us to refinance our debt as it becomes due. As discussed above, in March 2013 we completed a public offering on our 2018 Notes and 2043 Notes. Interest on the Notes is payable on April 1 and October 1 of each year, commencing on October 1, 2013. Unless previously redeemed, the 2018 Notes will mature on April 1, 2018 and the 2043 Notes will mature on April 1, 2043. We intend to use the net proceeds from the Notes for working capital and other general corporate purposes, including acquisitions, stock repurchases and other business opportunities. Should additional funds be required we had approximately \$1,047 of borrowing capacity available under all of our existing credit facilities at June 30, 2013.

At June 30, 2013 approximately 50% of our consolidated cash and cash equivalents and marketable securities were held in locations outside the United States. These funds are considered indefinitely reinvested to be used to expand operations, either organically or through acquisitions, outside the United States.

Several European countries, including Spain, Portugal, Italy and Greece (the Southern European Region), have been subject to credit deterioration due to weaknesses in their economic and fiscal situations. We continuously monitor our investment portfolio positions for exposures to the European debt crisis. 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. We continually evaluate our receivables, particularly in the Southern European Region. The total net receivables from the Southern European Region at June 30, 2013 and December 31, 2012 was approximately \$198 in each period, including approximately \$101 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 European debt crisis is not expected to have a material adverse impact on our financial position or liquidity.

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.

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

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## OTHER MATTERS

### Hedging

We have certain investments in net assets in international locations that are not hedged. These investments are subject to translation gains and losses due to changes in foreign currencies. The strengthening of the United States dollar relative to foreign currencies has decreased the value of these investments in net assets and the related foreign currency translation adjustment loss in shareholders' equity by \$94 since December 2012.

### 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 and intellectual property and other matters. The outcomes of certain of these matters will not be known for prolonged periods of time. To partially mitigate losses arising from unfavorable outcomes in such matters, we purchase third-party insurance coverage subject to certain deductibles and loss limitations. Future operating results may be unfavorably impacted by any settlement payments or losses beyond the amounts of insurance carried. In addition, such matters may negatively impact our ability to obtain cost effective third-party insurance coverage in future periods. 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 cost, 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. 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 future operating results.

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.

In 2007 we disclosed that the United States Securities and Exchange Commission (SEC) made an inquiry of us regarding possible violations of the Foreign Corrupt Practices Act in connection with the sale of medical devices in certain foreign countries. The investigation is ongoing and we are fully cooperating with the SEC regarding these matters.

We have recorded charges totaling \$94 related to the above DOJ and SEC regulatory matters, including \$59 in the six months ended June 30, 2013. The final outcome of these matters is difficult to predict, and the ultimate cost to resolve these matters 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 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 and the associated costs. The ultimate total cost with respect to this matter will depend on many factors that are difficult to predict with the limited information received to date 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, we estimate the probable loss to resolve this matter to be in the range of approximately \$400 to \$660, before third-party insurance recoveries. In the six months ended June 30, 2013 we have recorded charges to earnings of \$210 representing the excess of the \$400 minimum of the range over the previously recorded reserves. No contingent gain for third-party recoveries was recorded as of June 30, 2013. 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.

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. The Wisconsin lawsuit was subsequently transferred to the United States District Court in Indiana. The suits allege infringement under

United States patent laws with respect to certain patient handling equipment we manufactured and sold and seek damages and permanent injunctions. The first lawsuit involved ten patents related to the use of a motorized wheel for hospital beds and stretchers. We have entered into an agreement settling that lawsuit. This agreement included a payment to Hill-Rom of \$3.75, a covenant not to sue and a cross-license. 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, which are currently under reexamination by the United States Patent Office. With respect to the suit and the three remaining patents, we continue to vigorously defend ourselves. The ultimate resolution of the second suit may have no relation to the resolution of the first suit and cannot be predicted; however, the ultimate cost 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.

In 2007 the United States Department of Health and Human Services, Office of Inspector General (HHS) issued us a civil subpoena seeking to determine whether we violated various laws by paying consulting fees and providing other things of value to orthopedic surgeons and healthcare and educational institutions as inducements to use Stryker's orthopedic medical devices in procedures paid for in whole or in part by Medicare. We have produced numerous documents and other materials to HHS in response to the subpoena.

#### 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, 2012. 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, 2012.

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, 2012, under the caption "Hedging and Derivative Financial Instruments" on page 19. 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 June 30, 2013 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 June 30, 2013 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 34,830 shares of our common stock in the first six months of 2013 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, 2011 and 2010, we announced that our Board of Directors had authorized us to purchase up to \$405, \$500 and \$500, respectively, of our common stock (the 2012, 2011 and 2010 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 the first quarter of 2013, we repurchased 1.4 million shares at a cost of \$95 under the 2010 Repurchase Program and 2.2 million shares at a cost of \$155 under the 2011 Repurchase Program. The repurchase activity was attributable to the initial delivery of shares under our Accelerated Share Repurchase (ASR) program. The ASR program was complete in April of 2013 and resulted in the receipt of 0.2 million additional shares.

As of June 30, 2013, the 2010 Repurchase Program was complete, the maximum dollar value of shares that may yet be purchased under the 2011 Repurchase Program was \$345 and we had not made any repurchases pursuant to the 2012 Repurchase Program. Shares repurchased under the share repurchase programs are available for general corporate purposes, including offsetting dilution associated with stock option and other equity-based employee benefit plans. At June 30, 2013, the maximum dollar value of shares that may be purchased under the authorized Repurchase Programs was \$750.

A summary of the activity pursuant to the 2010 and 2011 Repurchase Programs for the three months ended June 30, 2013 is as follows:

| Period                       | Total Number of Shares Purchased (millions) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans (millions) | Maximum Dollar Value of Shares that may yet be Purchased Under the Plans |
|------------------------------|---|------------------------------|---|--|
| April 1, 2013—April 30, 2013 | 0.2   | see (1) below                | 0.2   | \$345  |
| May 1, 2013—May 31, 2013     | —   | —                            | —   | \$345  |
| June 1, 2013—June 30, 2013   | —   | —                            | —   | \$345  |
| Total                        | 0.2   |                              | 0.2   |  |

(1) Includes final share delivery under the ASR program executed in the first quarter of 2013. In total, the average purchase price under the ASR agreement upon completion of the ASR program in April of 2013 was \$65.12.

## ITEM 6. EXHIBITS

(a)

- 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

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

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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)

July 23, 2013  
Date

/s/ KEVIN A. LOBO  
Kevin A. Lobo, President and Chief Executive Officer

July 23, 2013  
Date

/s/ WILLIAM R. JELLISON  
William R. Jellison, Vice President, Chief Financial  
Officer

EXHIBIT INDEX

|             |   |
|-------------|---|
| 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