STRYKER CORP
Form 10-K
February 13, 2012

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

FORM 10-K

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

For the fiscal year ended December 31, 2011

OR

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

Commission file number: 000-09165

STRYKER CORPORATION
(Exact name of registrant as specified in its charter)

Michigan	38-1239739
(State of incorporation)	(I.R.S. Employer Identification No.)
2825 Airview Boulevard, Kalamazoo, Michigan	49002
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (269) 385-2600

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

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

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

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

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

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

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

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

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

Large accelerated filer x	Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO ý

Based on the closing sales price of June 30, 2011, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $20,775,513,052. The number of shares outstanding of the registrant's common stock, $.10 par value, was 381,020,353 at January 31, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement to be filed with the U.S. Securities and Exchange Commission relating to the 2012 Annual Meeting of Shareholders (the 2012 proxy statement) are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS.

General

Stryker Corporation is one of the world's leading medical technology companies with 2011 revenues of $8,307 and net earnings of $1,345. Stryker's products include implants used in joint replacement and trauma surgeries; surgical equipment and surgical navigation systems; endoscopic and communications systems; patient handling and emergency medical equipment; neurosurgical, neurovascular and spinal devices; as well as other medical device products used in a variety of medical specialties.

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

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

Business Segments and Geographic Information

In 2011 we began segregating our reporting into three reportable business segments: Reconstructive, MedSurg, and Neurotechnology and Spine. Financial information regarding our reportable business segments and certain geographic information is included under Results of Operations in Item 7 of this report and Note 13 to the Consolidated Financial Statements in Item 8 of this report. We have restated prior period segment information to conform to the current presentation.

Reconstructive

Reconstructive products consist primarily of implants used in hip and knee joint replacements and trauma surgeries. Many of our technologically advanced reconstructive implants are suited to minimally invasive surgery procedures that are intended to reduce soft-tissue damage and pain while hastening return to function. We support surgeons with technology, procedural development and specialized instrumentation as they develop new surgical techniques.

In 2011 we received 510(k) approval to market our ShapeMatch Cutting Guides for use with our Triathlon Total Knee System. ShapeMatch technology utilizes proprietary 3D imaging software to develop a customized preoperative surgical plan for each patient and is available only for use with the Triathlon system.

In 2011 we acquired Memometal Technologies, which develops, manufactures and markets products for extremity (hand and foot) indications that enhance the offerings in our trauma product line.

Stryker is one of five leading competitors in the United States for joint replacement products; the other four are DePuy Orthopaedics, Inc. (DePuy, a subsidiary of Johnson & Johnson), Zimmer Holdings, Inc. (Zimmer), Biomet, Inc. and Smith & Nephew plc. We are also a leading player in the international markets, with these same companies as our principal competitors. In trauma systems, we compete principally with Synthes, Inc., Smith & Nephew Orthopaedics (a division of Smith & Nephew plc), Zimmer and DePuy.

MedSurg

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

In 2010 we acquired the assets used to produce the Sonopet Ultrasonic Aspirator control consoles, handpieces and accessories, which are used by surgeons to fragment soft and hard tissue for tumor removal and bone cutting and have applications in our Instruments product line.

In 2010 we acquired Gaymar Industries (Gaymar), which specializes in support surfaces and pressure ulcer management solutions as well as the temperature management segment of the healthcare industry. Gaymar enhances the offerings in our Medical product line.

Stryker is one of three market leaders in Instruments, competing principally with Medtronic, Inc. and Conmed Linvatec, Inc. (a subsidiary of CONMED Corporation) globally; internationally, we also compete with Aesculap-Werke AG (a division of B. Braun Melsungen AG). In Endoscopy, we compete with Smith & Nephew Endoscopy (a division of Smith & Nephew plc), ConMed Linvatec, Inc., Arthrex, Inc., Karl Storz GmbH & Co. and

Olympus Optical Co. Ltd. Our primary competitors in Medical are Hill-Rom Holdings, Inc., Hausted, Inc. (a subsidiary of STERIS Corporation), Midmark Hospital Products Group (a subsidiary of Ohio Medical Instrument Company, Inc.) and Ferno-Washington, Inc.

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

Neurotechnology and Spine

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

In 2011 we acquired the assets of the Neurovascular division of Boston Scientific Corporation (Neurovascular), as well as Concentric Medical, Inc., a manufacturer of minimally invasive products for the treatment of acute ischemic stroke. These acquisitions complement our product offerings within our Neurovascular product line.

In June 2011 we completed the acquisition of Orthovita, Inc. (Orthovita), a developer of orthobiologic and biosurgery products, including synthetic bone grafts and vertebral augmentation products. The acquisition of Orthovita complements our existing product offerings, primarily within our Spine product line.

Our primary competitors in neurotechnology are Covidien and Micrus Endovascular, LLC (a subsidiary of Johnson & Johnson). We are one of four market leaders in spine products, along with Medtronic Sofamor Danek, Inc. (a subsidiary of Medtronic, Inc.), DePuy Spine, Inc. (a subsidiary of Johnson & Johnson) and Synthes, Inc.

Geographic Areas

In 2011 approximately 63% of our revenues were generated from customers in the United States. Internationally, our products are sold in over 100 countries through local dealers and direct sales efforts. Additional geographic information is included under Results of Operations in Item 7 of this report and Note 13 to the Consolidated Financial Statements in Item 8 of this report.

Raw Materials and Inventory

Raw materials essential to our business are generally readily available from multiple sources. Substantially all products we manufacture are stocked in inventory, while certain MedSurg products are assembled to order. The dollar amount of backlog orders at any given time is not considered to be significant.

Patents and Trademarks

Patents and trademarks are significant to our business to the extent that a product or an attribute of a product represents a unique design or process. Patent protection of such products restricts competitors from duplicating these unique designs and features. We seek to obtain patent protection on our products whenever appropriate for protecting our competitive advantage. As of December 31, 2011, we own approximately 1,456 United States patents and 2,579 international patents.

Seasonality

Our business is generally not seasonal in nature; however, the number of reconstructive implant surgeries is generally lower during the summer months.

Competition

In all of our product lines, we compete with local and global companies located throughout the world. Competition exists in all product lines without regard to the number and size of the competing companies involved. The development of new and innovative products is important to our success in all areas of our business and competition in research, involving the development and the improvement of new and existing products and processes, is particularly significant. The competitive environment requires substantial investments in continuing research and in maintaining sales forces.

The principal factors that we believe differentiate us in the highly competitive product categories in which we operate and enable us to compete effectively include our commitment to innovation and quality, service and reputation. We believe that our competitive position in the future will depend to a large degree on our ability to develop new products and make improvements to existing products.

Product Development

Most of our products and product improvements, with the exception of our neurotechnology products, have been developed internally at research facilities located in manufacturing locations in the United States, Ireland, Puerto Rico, Germany, Switzerland and France. We also invest through acquisitions in technologies developed by third parties that

have the potential to expand the markets in which we operate. We maintain close working relationships with physicians and medical personnel in hospitals and universities who assist us in product development efforts. The total costs of worldwide Company-sponsored research, development and engineering activities

relating to the development of new products, improvement of existing products, technical support of products and compliance with governmental regulations for the protection of customers and patients were $462, $394 and $336 in 2011, 2010 and 2009, respectively. Research, development and engineering expenses represented 5.6% of sales, 5.4% of sales and 5.0% of sales in 2011, 2010 and 2009, respectively.

Regulation

Most of our businesses are subject to varying degrees of governmental regulation in the countries in which operations are conducted, and the general trend is toward increasingly stringent regulation.

In the United States, the Medical Device Amendments of 1976 to the federal Food, Drug and Cosmetic Act and the Safe Medical Devices Act of 1990, and the regulations issued or proposed thereunder, provide for regulation by the federal Food and Drug Administration (FDA) of the design, manufacture and marketing of medical devices, including most of our products. Most of our new products fall into FDA classifications that require notification of and review by the FDA before marketing, submitted as a 510(k). Certain of our products require extensive clinical testing, consisting of safety and efficacy studies, followed by pre-market approval applications for specific surgical indications.

The FDA's Quality System regulations set forth standards for our product design and manufacturing processes, require the maintenance of certain records and provide for inspections of our facilities by the FDA. There are also certain requirements of state, local and foreign governments that must be complied with in the manufacturing and marketing of our products. We have previously been subject to warning letters issued by the FDA but all warning letters have been resolved as of May 10, 2010 and none are currently outstanding.

The member states of the European Union (EU) have adopted the European Medical Device Directives that form a single set of medical device regulations for all EU member countries. These regulations require companies that wish to manufacture and distribute medical devices in EU member countries to obtain CE Marking for their products. We have authorization to apply the CE Marking to substantially all of our products.

Initiatives sponsored by government agencies, legislative bodies and the private sector to limit the growth of healthcare expenses generally and hospital costs in particular, including price regulation and competitive pricing, are ongoing in markets where we do business. It is not possible to predict at this time the long-term impact of such cost-containment measures on our future business.

In addition, business practices in the health care industry have come under increased scrutiny, particularly in the United States, by government agencies and state attorneys general, and resulting investigations and prosecutions carry the risk of significant civil and criminal penalties.

Employees

At December 31, 2011, we had approximately 21,241 employees worldwide. Certain international employees are covered by collective bargaining agreements. We believe that we maintain positive relationships with our employees worldwide.

Executive Officers of the Registrant

Information regarding our executive officers appears under the caption "Directors, Executive Officers and Corporate Governance" in Item 10 of this Report.

Available Information

Our main corporate website address is www.stryker.com. Copies of our Quarterly Reports on Form 10-Q, Annual Report on Form 10-K and Current Reports on Form 8-K filed or furnished to the U.S. Securities and Exchange Commission (SEC) will be provided without charge to any shareholder submitting a written request to the Secretary at our principal executive offices. All of our SEC filings are also available free of charge on our website within the "Investor-SEC Filings & Ownership Reports" link as soon as reasonably practicable after having been electronically filed or furnished to the SEC. All SEC filings are also available at the SEC's website at www.sec.gov.

ITEM 1A. RISK FACTORS.

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,” “possible,” “plan,” “predict,” “forecast,” “potential,” “anticipate,” “est “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, a merger, or our businesses. In addition, any statements that refer to expectations, projections or other characterizations of future events or

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

circumstances, including any underlying assumptions, are forward-looking statements. Those 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 forward-looking statements. Some important factors that could cause our actual results to differ from our expectations in any forward-looking statements include those risks discussed below.

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, cash flows, financial condition and results of operations. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business, cash flows, financial condition or results of operations,

We may be unable to effectively develop and market products against those of our competitors in a highly competitive industry. Our present or future products could be rendered obsolete or uneconomical by technological advances by one or more of our present or future competitors. Competitive factors include price, customer service, technology, innovation, quality, reputation and reliability. Our competition may respond more quickly to new or emerging technologies, undertake more extensive marketing campaigns, have greater financial, marketing and other resources than us or may be more successful in attracting potential customers, employees and strategic partners. Given these factors, we cannot guarantee that we will be able to continue our level of success in the industry.

Competition in research, involving development and the improvement of new and existing products, is particularly significant and results from time to time in product obsolescence. The markets in which we operate are highly competitive, and new products and surgical procedures are introduced on an ongoing basis. Such marketplace changes may cause some of our products to become obsolete. If actual product life cycles, product demand or acceptance of new product introductions are less favorable than projected by management, a higher level of inventory write-downs may result.

Dependence on patent and other proprietary rights and failing to protect such rights or to be successful in litigation related to such rights may result in our payment of significant monetary damages or impact offerings in our product portfolios. Our long-term success largely depends on our ability to market technologically competitive products. If we fail to obtain or maintain adequate intellectual property protection, we may not be able to prevent third parties from using our proprietary technologies or may lose access to technologies critical to our products. Also, our currently pending or future patent applications may not result in issued patents, and issued patents are subject to claims concerning priority, scope and other issues.

Intellectual property litigation and infringement claims could cause us to incur significant expenses or prevent us from selling certain of our products. The medical device industry is characterized by extensive intellectual property litigation and, from time to time, we are the subject of claims by third parties of potential infringement or misappropriation. Regardless of outcome, such claims are expensive to defend and divert the time and effort of our management and operating personnel from other business issues. A successful claim or claims of patent or other intellectual property infringement against us could result in our payment of significant monetary damages and/or royalty payments or negatively impact our ability to sell current or future products in the affected category and could have a material adverse effect on our business, cash flows, financial condition or results of operations.

We are subject to extensive governmental regulations relating to the manufacturing, labeling and marketing of our products. Substantially all of our products are subject to regulation by the FDA and other governmental authorities both inside and outside of the United States. The process of obtaining regulatory approvals to market a medical device can be costly and time consuming and approvals might not be granted for future products on a timely basis, if at all. In addition, if we fail to comply with applicable regulatory requirements, we may be subject to a range of sanctions including warning letters, monetary fines, product recalls and the suspension of product manufacturing, and criminal prosecution.

Healthcare changes in the United States and other countries resulting in pricing pressures could have a negative impact on our future operating results. Initiatives sponsored by government agencies, legislative bodies and the private sector to limit the growth of healthcare costs, including price regulation and competitive pricing, are ongoing in markets where we do business. Pricing pressure has also increased in our markets due to continued consolidation among health care providers, trends toward managed care, the shift towards governments becoming the primary payers of health care expenses, and government laws and regulations relating to reimbursement and pricing generally.

Reductions in reimbursement levels or coverage or other cost-containment measures could unfavorably affect our future operating results.

The impact of United States healthcare reform legislation on us remains uncertain. In 2010 federal legislation to reform the United States healthcare system was enacted into law. The legislation is far-reaching and is intended to expand access to health insurance coverage, improve quality and reduce costs over time. We expect the new law will have a significant impact upon various aspects of our business operations. However, it is unclear how the new law will impact patient access to new technologies or reimbursement rates under the Medicare program. In addition, the new law imposes a 2.3 percent excise tax on medical devices scheduled to be implemented in 2013 that will apply to United States sales of a majority of our medical device products. Many of the details of the new law will be included in new and revised regulations, which have not yet been promulgated, and require additional guidance and specificity to be provided by the Department of Health and Human Services, Department of Labor and Department of the Treasury. Accordingly, while it is too early to understand and predict the ultimate impact of the new law on our business, the

legislation could have a material adverse effect on our business, cash flows, financial condition and results of operations.

We may be adversely affected by product liability claims, unfavorable court decisions or legal settlements. We are defendants in various proceedings, legal actions and claims arising in the normal course of business, including product liability and other matters. These matters are subject to many uncertainties and outcomes are not predictable. In addition, we may incur significant legal expenses regardless of whether we are found to be liable. To partially mitigate losses arising from unfavorable outcomes in such matters, we purchase third-party insurance coverage subject to certain retentions, deductibles and loss limitations. While we believe our current insurance coverage is adequate to mitigate losses arising from such matters, we may be adversely impacted by any settlement payments or losses beyond the amounts of insurance carried or for which coverage is otherwise not available. In addition, even if covered by insurance, such losses may negatively impact our ability to obtain third-party insurance coverage in future periods on a cost-effective basis or at all.

We may be unable to maintain adequate working relationships with healthcare professionals. We seek to maintain close working relationships with respected physicians and medical personnel in hospitals and universities who assist in product research and development. We rely on these professionals to assist us in the development of proprietary products and product improvements to complement and expand our existing product lines. If we are unable to maintain these relationships, our ability to develop, market and sell new and improved products could decrease and future operating results could be unfavorably affected.

We are subject to additional risks associated with our extensive international operations. We develop, manufacture and distribute our products throughout the world. Our international operations are, and will continue to be, subject to a number of additional risks and potential costs, including changes in foreign medical reimbursement policies and programs, unexpected changes in foreign regulatory requirements, differing local product preferences and product requirements, diminished protection of intellectual property in some countries outside of the United States, trade protection measures and import or export licensing requirements, extraterritorial effects of United States laws such as the Foreign Corrupt Practices Act, difficulty in staffing and managing foreign operations, and political and economic instability.

Exposure to exchange rate fluctuations on cross border transactions and translation of local currency results into United States dollars could have a significant impact on the reported results of our operations, which are presented in United States dollars. Cross border transactions, both with external parties and intercompany relationships, result in increased exposure to foreign exchange effects. Accordingly, significant changes in currency exchange rates could negatively affect our results of operations. In addition, our sales are translated into United States dollars for reporting purposes. The strengthening or weakening of the United States dollar could result in favorable or unfavorable translation effects as the results of foreign locations are translated into United States dollars.

Our operating results could be negatively impacted by future changes in the allocation of income to each of the income tax jurisdictions in which we operate. We operate in multiple income tax jurisdictions both inside and outside the United States. Accordingly, our management must determine the appropriate allocation of income to each of these jurisdictions based on current interpretations of complex income tax regulations. Income tax authorities in these jurisdictions regularly perform audits of our income tax filings. Income tax audits associated with the allocation of this income and other complex issues, including inventory transfer pricing and cost sharing, product royalty and foreign branch arrangements, may require an extended period of time to resolve and may result in significant income tax adjustments. If changes to the income allocation are required between jurisdictions with different income tax rates, such adjustments could have a material unfavorable impact on our income tax expense and net earnings.

We may be unable to capitalize on previous or future acquisitions. In addition to internally developed products, we rely upon investment in new technologies through acquisitions. Investments in medical technology are inherently risky, and we cannot guarantee that any acquisition will be successful or will not have a material unfavorable impact on us. These risks include the activities required by us to integrate new businesses, which may result in the need to allocate more resources to integration and product development activities than originally anticipated, diversion of management's time, which could adversely affect management's ability to focus on other projects, the inability to realize the expected benefits, savings or synergies from the acquisition, the loss of key personnel of the acquired company, and exposure to unexpected liabilities of the acquired company. In addition, we cannot be certain that the

businesses we acquire will become profitable or remain so, which may result in unexpected impairment charges.

Failure of a key information technology system, process or site could have a material adverse impact on our business. We rely extensively on information technology systems to conduct business. These systems include, but are not limited to, ordering and managing materials from suppliers, converting materials to finished products, shipping products to customers, processing transactions, summarizing and reporting results of operations, complying with regulatory, legal or tax requirements, providing data security and other processes necessary to manage our business. If our systems are damaged or cease to function properly due to any number of causes, ranging from catastrophic events to power outages to security breaches, and our business continuity plans do not effectively compensate on a timely basis, we may suffer interruptions in our ability to manage operations, which may adversely impact our business, cash flows, financial conditions or results of operations.

We may be unable to attract and retain key employees. Our sales, technical and other key personnel play an integral role in the

development, marketing and selling of new and existing products. If we are unable to recruit, hire, develop and retain a talented, competitive work force, we may not be able to meet our strategic business objectives.

Macroeconomic developments, such as the recent recessions in Europe and the debt crisis in certain countries in the European Union, could negatively affect our ability to conduct business in those geographies. The continuing debt crisis in certain European countries could cause the value of the euro to deteriorate, reducing the purchasing power of our European customers. Financial difficulties experienced by our suppliers and customers, including distributors, could result in product delays and inventory issues; risks to accounts receivable could also include delays in collection and greater bad debt expense.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The following are our principal manufacturing locations as of December 31, 2011:

Location	Segment	Square Feet	Owned/ Leased
Mahwah, New Jersey	Reconstructive	531,000	Owned
Kiel, Germany	Reconstructive	174,000	Owned
Suzhou, China	Reconstructive, Neurotechnology and Spine	155,000	Owned
Carrigtwohill, Ireland	Reconstructive, MedSurg	154,000	Owned
Limerick, Ireland	Reconstructive	130,000	Owned
Newbury, UK	Reconstructive, MedSurg	99,000	Owned
Malvern, Pennsylvania	Reconstructive	88,000	Leased
Selzach, Switzerland	Reconstructive	78,000	Owned
Newnan, Georgia	Reconstructive	54,000	Leased
Portage, Michigan	MedSurg	1,034,000	Owned
Arroyo, Puerto Rico	MedSurg	220,000	Leased
San Jose, California	MedSurg	204,000	Leased
Lakeland, Florida	MedSurg	125,000	Leased
Flower Mound, Texas	MedSurg	114,000	Leased
Buffalo, New York	MedSurg	112,000	Owned
Freiburg, Germany	MedSurg, Neurotechnology and Spine	106,000	Owned
Phoenix, Arizona	MedSurg	95,000	Leased
Neuchâtel, Switzerland	Neurotechnology and Spine	88,000	Owned
Bordeaux, France	Neurotechnology and Spine	79,000	Owned
Bordeaux, France	Neurotechnology and Spine	35,000	Leased
Stetten, Germany	Neurotechnology and Spine	33,000	Owned

In addition, we maintain corporate, administrative and sales offices and warehousing and distribution facilities in multiple countries. We believe that our properties are suitable and adequate for the manufacture and distribution of our products.

ITEM 3. LEGAL PROCEEDINGS.

We are involved in various proceedings, legal actions and claims arising in the normal course of business, including proceedings related to product, labor and intellectual property, and other matters that are more fully described in Note 7 to the Consolidated Financial Statements in Item 8 of this report; this information is incorporated herein by reference.

ITEM 4. REMOVED AND RESERVED.

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is traded on the New York Stock Exchange under the symbol SYK. Quarterly stock price and dividend information for the years ended December 31, 2011 and 2010 were as follows:

	2011 Quarter Ended				2010 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Dividends declared per share of common stock	$0.18	$0.18	$0.18	$0.2125	$0.15	$0.15	$0.15	$0.18
Market price of common stock:								
High	65.20	64.61	60.64	51.13	58.49	59.72	53.29	55.00
Low	53.50	56.58	43.73	44.56	49.85	48.76	42.74	48.13

Our Board of Directors considers payment of cash dividends at each of its quarterly meetings. On January 31, 2012, there were 4,487 shareholders of record of our common stock. In December 2010 and 2009 we announced that our Board of Directors had authorized us to purchase up to $500 and $750, respectively, of our common stock from time to time in the open market, in privately negotiated transactions or otherwise. During 2011 pursuant to these authorizations we repurchased 11.8 million shares of our common stock in the open market at a total cost of $622, of which 1.8 million shares were repurchased in the fourth quarter at a cost of $83 as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Dollar Value of Shares that may yet be Purchased Under the Plans
October 1, 2011—October 31, 2011	0.5	$45.98	0.5	$262
November 1, 2011—November 30, 2011	0.9	$46.95	0.9	$219
December 1, 2011—December 31, 2011	0.4	$46.97	0.4	$203
Total	1.8	$46.66	1.8	

In December 2011 we announced that our Board of Directors had authorized us to purchase an additional $500 of our common stock from time to time in the open market, in privately negotiated transactions or otherwise. We did not make any repurchases pursuant to this program in 2011.

The following graph compares our total returns (including reinvestments of dividends) against the Standard & Poor's (S&P) 500 Composite Stock Price Index and the S&P Health Care (Medical Products and Supplies) Index. The graph assumes $100 (not in millions) invested on December 31, 2006 in our Common Stock and each of the indices.

Company / Index	2006	2007	2008	2009	2010	2011
Stryker Corporation	100.00	136.18	73.54	93.18	100.54	94.39
S&P 500 Index	100.00	105.49	66.46	84.05	96.71	98.76
S&P 500 Health Care Index	100.00	107.15	82.71	99.00	101.87	114.84

ITEM 6. SELECTED FINANCIAL DATA.

Selected financial data for each of the five years in the period ended December 31, 2011 is as follows:

CONSOLIDATED OPERTATIONS	2011	2010	2009	2008	2007
Net sales	$8,307	$7,320	$6,723	$6,718	$6,000
Cost of sales	2,811	2,286	2,184	2,131	1,865
Gross profit	5,496	5,034	4,539	4,587	4,135
Research, development and engineering expenses	462	394	336	368	375
Selling, general and administrative expenses	3,150	2,707	2,506	2,625	2,392
Intangibles amortization	122	58	36	40	41
Other (a)	76	124	67	35	20
	3,810	3,283	2,945	3,068	2,828
Operating income	1,686	1,751	1,594	1,519	1,307
Other income (expense)	—	(22)	30	61	63
Earnings from continuing operations before income taxes	1,686	1,729	1,624	1,580	1,370
Income taxes	341	456	517	432	383
Net earnings from continuing operations	1,345	1,273	1,107	1,148	987
Net earnings and gain on sale of discontinued operations	—	—	—	—	30
Net earnings	$1,345	$1,273	$1,107	$1,148	$1,017
PER SHARE DATA					
Net earnings from continuing operations per share of common stock:					
Basic	$3.48	$3.21	$2.79	$2.81	$2.41
Diluted	$3.45	$3.19	$2.77	$2.78	$2.37
Net earnings per share of common stock:					
Basic	$3.48	$3.21	$2.79	$2.81	$2.48
Diluted	$3.45	$3.19	$2.77	$2.78	$2.44
Dividends per share of common stock:					
Declared	$0.7525	$0.63	$0.25	$0.40	$0.33
Paid	$0.72	$0.60	$0.50	$0.33	$0.22
Average number of shares outstanding—in millions:					
Basic	386.5	396.4	397.4	408.1	409.7
Diluted	389.5	399.5	399.4	413.6	417.2
CONSOLIDATED FINANCIAL POSITION					
Cash and current marketable securities	$3,418	$4,380	$2,955	$2,196	$2,411
Accounts Receivable—net	1,417	1,252	1,147	1,130	1,031
Inventory—net	1,283	1,057	943	953	796
Property, plant and equipment—net	888	798	948	964	992
Capital expenditures	226	182	131	155	188
Depreciation and amortization	481	410	385	388	367
Total assets	12,405	10,895	9,071	7,603	7,354
Accounts Payable—net	345	292	200	274	265
Long-term debt, including current maturities	1,768	1,021	18	21	17
Shareholders' equity	7,683	7,174	6,595	5,407	5,379
Net cash provided by operating activities	1,434	1,547	1,461	1,176	1,028
OTHER DATA					
Number of shareholders of record	4,508	4,586	4,607	4,500	4,373
Number of employees	21,241	20,036	18,582	17,594	16,026

(a) Includes restructuring charges, asset impairments, and purchased in-process research and development charges.

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

We supplement the reporting of our financial information determined under GAAP with certain non-GAAP financial measures, including percentage sales growth in constant currency, adjusted net earnings and adjusted diluted net earnings per share. 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, adjusted net earnings and adjusted net earnings per diluted share 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, for analyzing potential future business trends in connection with our budget process and bases certain annual bonus plans 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, 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 2011 revenues of $8,307 and net earnings of $1,345. 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 2011 we began segregating our reporting into three reportable business segments: Reconstructive, MedSurg, and Neurotechnology and Spine. See Note 13 to our Consolidated Financial Statements for additional information.

Recent Business Developments

In January 2012 we reached a settlement regarding a 2009 indictment charging Stryker Biotech LLC and certain then-current employees and a former employee of Stryker Biotech with wire fraud, conspiracy to defraud the FDA, distribution of a misbranded device and false statements to the FDA. We reached a settlement with the United States Attorney's Office for the District of Massachusetts, under which Stryker pled to one misdemeanor charge and paid a non-tax deductible fine of $15. As a result of this resolution, the Department of Justice dismissed all thirteen felony charges against Stryker Biotech contained in the 2009 federal grand jury indictment. All of the charges against the then-current and former employees of Stryker Biotech have also been dismissed. The settlement represented a recognized subsequent event and accordingly was recorded in our fourth quarter 2011 results.

In 2011 we recorded $38 in severance and related costs in connection with focused reductions of our global workforce and other restructuring activities that are expected to reduce our global workforce by approximately 5% by the end of 2012. The targeted reductions and other restructuring activities are being initiated to provide efficiencies and realign resources in advance of the new Medical Device Excise Tax scheduled to begin in 2013, as well as to allow for continued investment in strategic areas and drive growth. In addition, we recorded $25 in intangible asset impairments and $13 in contractual and other obligations, as certain of our restructuring actions resulted in the discontinued use of specific assets and the exit of certain lease and other commitments.

In 2011 we recorded an income tax benefit related to a favorable settlement with the United States Internal Revenue Service (IRS) regarding its proposed adjustment to our previously filed 2003 through 2007 income tax returns related to income tax positions we had taken with respect to our cost sharing arrangements with two wholly owned entities

operating in Ireland, and we recorded charges for other uncertain tax positions related to the outcome of the IRS settlements. The net benefit of these adjustments for uncertain tax positions was $99 (net of tax).

In October 2011 we acquired Concentric Medical, Inc. (Concentric), which manufactures and markets minimally invasive products for the treatment of acute ischemic stroke, in an all cash transaction for $135. The acquisition of Concentric enhances our product offerings within our Neurotechnology and Spine segment.

In July 2011 we completed the acquisition of Memometal Technologies (Memometal) in an all cash transaction for $150, including the assumption of $9 in debt, as well as an additional $12 to be paid upon the completion of certain milestones. The acquisition of

Memometal enhances our product offerings within our Reconstructive segment.

In June 2011 we completed the acquisition of Orthovita, Inc. (Orthovita) in an all cash transaction for $316. The acquisition of Orthovita complements our existing product offerings, primarily within our Neurotechnology and Spine business segment.

In February 2011 we completed the previously announced sale of our OP-1 product family for use in orthopaedic bone applications and our manufacturing facility based in West Lebanon, NH for total consideration of $60.

In January 2011 we completed the previously announced acquisition of assets of the Neurovascular division of Boston Scientific Corporation (Neurovascular) in an all cash transaction for $1,450, with an additional $50 payment to be made upon completion of certain milestones. The acquisition of Neurovascular substantially enhances our presence in the neurotechnology market, allowing us to offer a comprehensive portfolio of products in both neurosurgical and neurovascular devices.

In September 2011 we sold $750 of senior unsecured notes due September 2016 and in January 2010 we sold $500 of senior unsecured notes due January 15, 2015 and $500 of senior unsecured notes due January 15, 2020. The net proceeds from the offerings have been and will continue to be available for working capital and other general corporate purposes, including acquisitions, stock repurchases and other business opportunities.

RESULTS OF OPERATIONS

Our consolidated results of operations were:

				Percent Change	
	2011	2010	2009	2011/ 2010	2010/ 2009
Net Sales	$8,307	$7,320	$6,723	13.5	8.9
Gross Profit	5,496	5,034	4,539	9.2	10.9
Research, development & engineering expenses	462	394	336	17.3	17.3
Selling, general & administrative expenses	3,150	2,707	2,506	16.4	8.0
Intangible amortization	122	58	36	110.3	61.1
Property, plant and equipment impairment	—	124	—	(100.0)	—
Restructuring charges	76	—	67	—	(100.0)
Other income (expense)	—	(22)	30	(100.0)	—
Income taxes	341	456	517	(25.2)	(11.8)
Net Earnings	$1,345	$1,273	$1,107	5.7	15.0
Diluted Net Earnings per share	$3.45	$3.19	$2.77	8.2	15.2

Our geographic and segment net sales were:

				Percentage Change 2011/2010		2010/2009	
	Net Sales			Reported	Constant Currency	Reported	Constant Currency
	2011	2010	2009				
Geographic sales:							
United States	$5,269	$4,793	$4,317	9.9	9.9	11.0	11.0
International	3,038	2,527	2,406	20.2	13.4	5.0	2.2
Total net sales	$8,307	$7,320	$6,723	13.5	11.1	8.9	7.8
Segment sales:							
Reconstructive	$3,710	$3,549	$3,384	4.5	1.5	4.9	3.5
MedSurg	3,160	2,803	2,427	12.7	11.2	15.5	14.7
Neurotechnology and Spine	1,437	968	912	48.5	46.4	6.1	5.6
Total net sales	$8,307	$7,320	$6,723	13.5	11.1	8.9	7.8

Net sales increased 13.5% in 2011 after increasing 8.9% in 2010. In 2011, net sales grew by 6.1% as a result of increased unit volume and changes in product mix, 2.4% due to the favorable impact of foreign currency and 6.8% due to acquisitions, which were partially offset by an unfavorable impact of 1.8% due to changes in price. In 2010, net sales grew by 6.9% as a result of increased unit volume and changes in product mix, 1.0% due to the favorable impact of foreign currency and 2.6% due to acquisitions, which were partially offset by an unfavorable impact of 1.7% due to changes in price.

In the United States, net sales increased 9.9% in 2011, after increasing 11.0% in 2010. In constant currency, international sales increased 13.4% in 2011, compared to 2.2% in 2010. In 2011 acquisitions contributed $496 or 6.8% to net sales, compared to $177 or 2.6% in 2010. The remaining increases in 2011 and 2010 were primarily due to higher United States shipments of Medsurg products and higher international shipments of MedSurg products and Neurotechnology and Spine products.

The following geographical sales growth information by segment is provided to supplement the net sales information presented above:

	Year Ended December 31						
			% Change				
	2011	2010	As Reported	Constant Currency	U.S. As Reported	International As Reported	International Constant Currency
Reconstructive							
Hips	1,228	1,154	6.4	2.9	2.1	11.2	3.8
Knees	1,316	1,306	0.8	(1.5)	(2.3)	6.8	0.1
Trauma and Extremities	931	845	10.2	6.5	10.2	10.2	3.4
Total Reconstructive	3,710	3,549	4.5	1.5	0.9	9.3	2.3
MedSurg							
Instruments	1,187	1,085	9.4	7.4	9.4	9.5	2.9
Endoscopy	1,080	985	9.6	7.9	7.5	15.4	9.1
Medical	722	583	23.8	22.8	25.5	16.7	11.5
Total Medsurg	3,160	2,803	12.7	11.2	12.6	13.2	6.9
Neurotechnology and Spine							
Spine	687	648	6.0	4.0	2.5	14.4	7.6
Neurotechnology	750	320	134.4	132.3	78.6	283.6	275.7
Total Neurotechnology and Spine	1,437	968	48.5	46.4	28.1	99.6	92.4

	Year Ended December 31						
			% Change				
	2010	2009	As Reported	Constant Currency	U.S. As Reported	International As Reported	International Constant Currency
Reconstructive							
Hips	1,154	1,098	5.1	3.1	4.9	5.3	1.2
Knees	1,306	1,255	4.1	2.8	5.6	1.2	(2.5)
Trauma and Extremities	845	787	7.4	6.9	10.0	5.2	4.4
Total Reconstructive	3,549	3,384	4.9	3.5	5.6	3.9	0.8
MedSurg							
Instruments	1,085	1,020	6.4	5.7	8.4	1.9	(0.2)
Endoscopy	985	920	7.1	6.3	6.2	9.1	6.6
Medical	583	487	19.7	18.5	23.7	5.0	(0.3)
Total Medsurg	2,803	2,427	15.5	14.7	19.5	5.0	2.4
Neurotechnology and Spine							
Spine	648	632	2.5	2.2	0.6	8.1	6.5
Neurotechnology	320	280	14.3	13.3	11.9	20.9	17.2
Total Neurotechnology and Spine	968	912	6.1	5.6	4.1	11.8	9.6

Reconstructive net sales in 2011 increased 4.5% from 2010, primarily due to a 3.4% increase in unit volume and changes in product mix. The increase in units sold was due to higher industry demand. In addition, net sales were negatively impacted by the unfavorable impact of changes in price, which were partially offset by the favorable impact of foreign currency. In constant currency Reconstructive net sales increased by 1.5% in 2011. Reconstructive net sales for 2010 increased 4.9% from 2009, primarily due to increases in unit volumes for Hips, Knees, and Trauma and Extremities products, due to higher worldwide industry demand. In constant currency Reconstructive net sales increased by 3.5% in 2010.

MedSurg net sales in 2011 increased 12.7% from 2010, led by Medical while Endoscopy and Instruments also increased, primarily due to a 9.5% increase in unit volume and changes in product mix, the favorable impact of foreign currency and acquisitions. In constant currency MedSurg net sales increased by 11.2% in 2011. MedSurg net sales in 2010 increased 15.5% from 2009, led by increases in Medical as well as increases in Endoscopy and Instruments. Net sales in 2010 were positively impacted by 7.1% from acquisitions; the remainder is due to increases

in unit volume from higher worldwide demand. In constant currency MedSurg net sales increased by 14.7% in 2010. Neurotechnology and Spine net sales in 2011 increased 48.5% from 2010, primarily due to the acquisition of Neurovascular; sales growth from acquisitions was 42.6%. The remainder of the increase included 6.3% due to increases in unit volume and changes in product mix and the favorable impact of foreign currency, which were partially offset by an unfavorable impact of changes in price. In constant currency Neurotechnology and Spine net sales in 2011 increased by 46.4%. Neurotechnology and Spine net sales in 2010 increased 6.1% from 2009, primarily due to increases in unit volumes in both Spine and Neurotechnology product lines, from higher worldwide demand. In constant currency Neurotechnology and Spine net sales in 2010 increased by 5.6%.

Consolidated Cost of Sales

Cost of sales increased 23.0% from 2010 to 33.8% of sales compared to 31.2% in 2010. Cost of sales in 2011 includes an additional cost of $143 ($97 net of taxes) related to inventory that was stepped up to fair value following the acquisitions of Neurovascular,

Orthovita, Memometal and Concentric. The remaining increase in the cost of sales percentage was primarily due to the impact of lower pricing on sales resulting in an increase in cost of sales as a percent of sales and the impact of changes in product mix and of a weaker United States dollar on purchases from international manufacturing operations. Cost of sales in 2010 decreased 4.7% from 2009 to 31.2% of sales compared to 32.5% in 2009. The decrease in the cost of sales percentage was primarily due to lower excess and obsolete inventory charges, higher absorption due to higher production levels as well as a favorable impact from the effect of foreign currency on costs from our euro-based manufacturing sites.

Research, Development and Engineering Expenses

Research, development and engineering expenses represented 5.6% of sales in 2011 compared to 5.4% in 2010 and 5.0% in 2009. The higher spending levels are the result of our focus on new product development for anticipated future product launches and continued investments in new technologies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in 2011 increased 16.4% and represented 37.9% of sales compared to 37.0% in 2010 and 37.3% in 2009. In 2011 we recorded $66 ($45 net of taxes) in transaction and acquisition costs and integration-related charges associated with the acquisitions of the Neurovascular, Orthovita, Memometal and Concentric businesses. In addition, in 2011 general and administrative expenses include the payment of an intellectual property infringement claim, offset by a favorable resolution of a value added tax issue. In 2010 we sold a manufacturing facility in France and recorded a gain of $24 ($13 net of taxes), which is included in general and administrative expenses. In 2009 we settled an outstanding patent infringement lawsuit and received $62 ($43 net of taxes) pursuant to a legal agreement.

Restructuring Charges

In 2011 we recorded $76 ($60 net of taxes) in restructuring charges related to focused reductions of our global workforce and other restructuring, expected to reduce our global workforce by approximately 5% and be substantially complete by the end of 2012 at a total cost of approximately $150 to $175. The actions were initiated in 2011 to provide efficiencies and realign resources in advance of the new Medical Device Excise Tax scheduled to begin in 2013, as well as to allow for continued investment in strategic areas and drive growth. In 2009 we recorded $67 ($49 net of taxes) in restructuring charges related to agency conversion charges associated with the termination of certain third-party agent agreements, asset impairment charges related primarily to identifiable intangible assets as a result of our decision to discontinue selling certain products, severance and related costs resulting from our decision to simplify the organization structure at our Biotech, EMEA, Japan and Canada divisions and contractual obligations and other charges in connection with the termination of various supplier contracts as well as other incidental costs related to the discontinued product lines.

Property, plant and equipment impairment

In 2010 we recorded a $124 ($76 net of taxes) non-cash impairment charge to reduce the carrying amount of certain assets to fair value related to our OP-1 product family and related manufacturing facility.

Other Income (Expense)

Other expense in 2011 decreased $22 from 2010, primarily due to reductions of accrued interest expense resulting from settlements reached with the United States Internal Revenue Service (IRS). We reached a favorable settlement regarding an IRS proposed adjustment to our previously filed 2003 through 2007 income tax returns, related to the income tax positions we had taken for our Irish cost sharing arrangements. We also reached a settlement with the IRS with respect to the allocation of income with a wholly owned subsidiary operating in Puerto Rico for the years 2006 through 2009. The positive effect on interest expense from these tax settlements helped offset lower average yields on our investments combined with lower cash and cash equivalent and marketable securities balances compared to 2010. The decrease in these balances and the corresponding reduction in interest and investment income was primarily due to the purchases of the Neurovascular, Orthovita, Memometal and Concentric businesses, which were funded with cash. Other expense in 2010 increased $52 from 2009 primarily due to lower average yields on our investments combined with higher interest cost on the debt issued in January 2010.

Income Taxes

Our effective income tax rate on earnings was 20.2%, 26.4% and 31.8% in 2011, 2010 and 2009, respectively. The effective income tax rate for 2011 includes the net impact of the settlement with the IRS of income allocation issues

with a wholly owned subsidiary operating in Puerto Rico and our Irish cost sharing arrangements, effective settlement of all United States federal tax matters for tax years 2003 through 2007 and charges for other uncertain income tax positions. The effective income tax rate for 2010 includes the impact of the property, plant and equipment impairment charge, the gain on sale of a manufacturing facility and the favorable income tax expense adjustment associated with the repatriation of foreign earnings to the United States completed in 2009. The effective income tax rate for 2009 includes the impact of restructuring charges, the patent litigation gain and the impact of the income tax expenses associated with the repatriation of foreign earnings.

Net Earnings

Net earnings in 2011 increased 5.7% from 2010 to $1,345. Basic net earnings per share in 2011 increased 8.4% from 2010 to $3.48, and diluted net earnings per share in 2011 increased 8.2% from 2010 to $3.45. Net earnings in 2010 increased 15.0% from 2009 to $1,273. Basic net earnings per share in 2010 increased 15.0% to $3.21 as compared to $2.79 in 2009, and diluted net earnings per share in 2010 increased 15.0% to $3.19 as compared to $2.77 in 2009.

Reported net earnings includes benefits from settlements and other adjustments related to uncertain tax positions, restructuring and related charges and acquisition and integration related charges related to the Neurovascular, Orthovita, Memometal and Concentric acquisitions, including transaction costs, integration related costs and additional cost of sales for inventory sold in the year that was “stepped up” to fair value. Excluding the impact of these items, adjusted net earnings in 2011 increased 9.0% to $1,448 after increasing 12.6% in 2010. Adjusted diluted net earnings per share in 2011 increased 11.7% to $3.72 after increasing 12.9% in 2010.

The following reconciles the non-GAAP financial measures adjusted net earnings and adjusted diluted net earnings per share with the most directly comparable GAAP financial measures, reported net earnings and diluted net earnings per share:

	2011	2010	2009
Reported net earnings	$1,345	$1,273	$1,107
Acquisition and integration-related charges:			
Cost of sales - inventory step-up	97	—	—
Selling, general and administrative expenses - acquisition and integration-related charges	45	—	—
Restructuring charges	60	—	49
Uncertain income tax position adjustments	(99)	—	—
Gain on sale of property, plant and equipment	—	(13)	—
Income taxes on repatriation of foreign earnings	—	(7)	67
Impairment of property, plant and equipment	—	76	—
Patent litigation gain	—	—	(43)
Adjusted net earnings	$1,448	$1,329	$1,180
	2011	2010	2009
Diluted net earnings per share of common stock:			
Reported diluted net earnings per share	$3.45	$3.19	$2.77
Acquisition and integration-related charges:			
Cost of sales - inventory set-up	0.25	—	—
Selling, general and administrative expenses - acquisition and integration-related charges	0.12	—	—
Restructuring charges	0.16	—	0.12
Uncertain income tax position adjustments	(0.26)	—	—
Gain on sale of property, plant and equipment	—	(0.03)	—
Income taxes on repatriation of foreign earnings	—	(0.02)	0.17
Impairment of property, plant and equipment	—	0.19	—
Patent litigation gain	—	—	(0.11)
Adjusted diluted net earnings per share	$3.72	$3.33	$2.95
Weighted-average diluted shares outstanding	389.5	399.5	399.4

The weighted-average basic and diluted shares outstanding used in the calculation of our non-GAAP financial measures are the same as the weighted-average shares outstanding used in the calculation of our reported per share amounts.

FINANCIAL CONDITION AND LIQUIDITY

Operating Activities

Operating cash flow was $1,434 in 2011, a decrease of 7.3% from 2010. Operating cash flow resulted primarily from net earnings adjusted for non-cash items (depreciation and amortization, stock-based compensation, sale of inventory stepped-up to fair value at acquisition and deferred income taxes), partially offset by an increase in working capital.

The net of accounts receivable, inventory, loaner instrumentation and accounts payable consumed $498 of operating cash flow in 2011. Inventory consumed $166 of operating cash flow primarily due to the building of inventory related to acquisitions and other business growth, increased stock levels in advance of new product introductions and higher inventory levels in support of anticipated 2012 sales growth. Inventory days on hand increased by 4 days due to the impact of the above. Accounts receivable used $143, primarily due to the building of accounts receivable related to acquisitions and other business growth. Accounts receivable days sales outstanding increased by 2 days due to

timing of sales.

Operating cash flow was $1,547 in 2010, a 6% increase from 2009. Operating cash flow resulted primarily from net earnings adjusted for non-cash items (depreciation and amortization, stock-based compensation, sale of inventory stepped-up to fair value at acquisition, property, plant and equipment impairment, deferred income taxes and gain on sale of property, plant and equipment), partially offset by an increase in working capital. The net of accounts receivable, inventory, loaner instrumentation and accounts payable consumed $349 of operating cash flow in 2010 primarily due to increases in inventories and accounts receivable. Inventory consumed $131 of operating cash flow driven by higher inventory levels in support of anticipated 2011 sales growth. Inventory days on hand increased by 9 days due to the impact of foreign exchange and higher inventory levels. Accounts receivable used $121 primarily to support business growth. Accounts receivable days sales outstanding of 56 were unchanged from the prior year.

Investing Activities

Net investing activities consumed $2,135 of cash in 2011 and $795 of cash in 2010, primarily due to acquisitions and capital spending, partially offset by proceeds from the sale of assets.

Acquisitions. Acquisitions used $2,066 of cash in 2011 primarily for the acquisitions of Neurovascular for $1,450; Orthovita for $316; Memometal for $150; and Concentric for $135. In 2010 acquisitions used $265 of cash primarily for the acquisitions of the Sonopet Ultrasonic Aspirator control consoles, handpieces and accessories, Gaymar Industries, Inc. and the bioimplantable implants product line and related assets from Porex Surgical, Inc.

Capital Spending. We manage capital spending to support our business growth. Capital expenditures, primarily to support capacity expansion, new product introductions, innovation and cost savings, were $226 in 2011 and $182 in 2010.

Proceeds from Asset Sales. Proceeds from asset sales contributed $67 to cash in 2011, primarily due to the sale of certain assets related to the OP-1 product family. In 2010 proceeds from asset sales contributed $61 to cash, primarily due to the sale of a manufacturing facility in France.

Financing Activities

Dividend Payments. Dividends paid per common share increased 20.0% to $0.72 per share in 2011. Total dividend payments to common shareholders were $279 in 2011 and $238 in 2010. The increase in dividend payments resulted from increases in our quarterly dividend from $0.15 per share in 2010 to $0.18 per share in 2011.

Long-Term and Short-Term Debt. We maintain debt levels we consider appropriate after evaluating a number of factors, including cash flow expectations, cash requirements for ongoing operations, investment and financing plans (including acquisitions and share repurchase activities) and overall cost of capital.

In September 2011 we sold $750 of senior unsecured notes due September 2016 and in January 2010 we sold $500 of senior unsecured notes due January 15, 2015 and $500 of senior unsecured notes due January 15, 2020. The net proceeds from the offerings have been and will continue to be available for working capital and other general corporate purposes, including acquisitions, stock repurchases and other business opportunities. Total debt was $1,768 in 2011 and $1,021 in 2010.

Share Repurchases. The total use of cash for share repurchases was $622 in 2011 and $426 in 2010.

Liquidity

Our cash and marketable securities were $3,418 at December 31, 2011 and $4,380 at December 31, 2010 and our current assets exceeded current liabilities by $5,383 at December 31, 2011 and $6,027 at December 31, 2010. We anticipate being able to support our short-term liquidity and operating needs largely through cash generated from operations. We have funded, and may continue from time to time to fund, ourselves in the capital markets. We have strong short- and long-term debt ratings that we believe should enable us to refinance our debt as it becomes due. In addition, we have a $1,000 credit facility with a diverse group of financial institutions that, if needed, should provide sufficient funding to meet short-term financing requirements. We had approximately $1,098 of borrowing capacity available under all of our existing credit facilities at December 31, 2011.

At December 31, 2011, approximately 62% of our consolidated cash and cash equivalents and marketable securities were held in locations outside of the United States. These funds are considered indefinitely reinvested to be used to expand operations either organically or through acquisitions outside the United States. We do not intend to repatriate any significant amounts of cash in the foreseeable future.

Guarantees and Other Off-Balance Sheet Arrangements

We do not have guarantees or other off-balance sheet financing arrangements, including variable interest entities, of a magnitude that we believe could have a material impact on our financial condition or liquidity.

CONTRACTUAL OBLIGATIONS AND FORWARD-LOOKING CASH REQUIREMENTS

As further described in Note 12 to the Consolidated Financial Statements, as of December 31, 2011 our defined benefit pension plans were in an underfunded status of $106, of which approximately $94 related to plans outside the United States. Due to the rules affecting tax-deductible contributions in the jurisdictions in which the plans are offered and the impact of future plan asset performance, changes in interest rates and the potential for changes in legislation in the United States and other foreign jurisdictions, we are not able to reasonably estimate the future periods, beyond 2012, in which contributions to fund defined benefit pension plans will be made. As further described in Note 11 to the Consolidated Financial Statements, as of December 31, 2011, we have recorded a liability for uncertain income tax positions of $249. Due to uncertainties regarding the ultimate resolution of income tax audits, we are not able to reasonably estimate the future periods in which income tax payments to settle these uncertain income tax positions will be made.

Our future contractual obligations for agreements with initial terms greater than one year, including agreements to purchase materials in the normal course of business, are:

	Payment Period						
	2012	2013	2014	2015	2016	After 2016	Total
Short-term and Long-term debt	$17	$—	$—	$500	$—	$ 1,251	$1,768
Unconditional purchase obligations	518	135	127	100	8	2	890
Operating leases	57	46	32	27	22	44	228
Contributions to defined benefit plans	22	—	—	—	—	—	22
Other	6	2	2	2	1	40	53
	$620	$183	$161	$629	$31	$ 1,337	$2,961

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our financial statements in accordance with U.S. GAAP, there are certain accounting policies that may require a choice between acceptable accounting methods or may require substantial judgment or estimation in their application. These include allowance for doubtful accounts, inventory reserves, income taxes, acquisitions, goodwill and intangible assets, and legal and other contingencies. We believe these accounting policies, and others set forth in Note 1 to the Consolidated Financial Statements, should be reviewed as they are integral to understanding our results of operations and financial condition.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses in the collection of accounts receivable. We make estimates regarding the future ability of our customers to make required payments based on historical credit experience and expected future trends. If actual customer financial conditions are less favorable than projected by management, additional accounts receivable write offs may be necessary, which could unfavorably affect future operating results.

Inventory Reserves

We maintain reserves for excess and obsolete inventory resulting from the potential inability to sell certain products at prices in excess of current carrying costs. We make estimates regarding the future recoverability of the costs of these products and record provisions based on historical experience, expiration of sterilization dates and expected future trends. If actual product life cycles, product demand or acceptance of new product introductions are less favorable than projected by management, additional inventory write downs may be required, which could unfavorably affect future operating results.

Income Taxes

Our annual tax rate is determined based on our income, statutory tax rates and the tax impacts of items treated differently for tax purposes than for financial reporting purposes. Tax law requires certain items be included in the tax return at different times than the items are reflected in the financial statements. Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences are temporary, reversing over time, such as depreciation expense. These temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent the tax effect of items that can be used as a tax deduction or credit in future years for which we have already recorded the tax benefit in our income statement. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred, the tax effect of

expenditures for which a deduction has already been taken in our tax return but has not yet been recognized in our financial statements or assets recorded at fair value in business combinations for which there was no corresponding tax basis adjustment.

Inherent in determining our annual tax rate are judgments regarding business plans, tax planning opportunities and expectations about future outcomes. Realization of certain deferred tax assets is dependent upon generating sufficient taxable income in the appropriate

jurisdiction prior to the expiration of the carryforward periods. Although realization is not assured, management believes it is more likely than not that our deferred tax assets, net of valuation allowances, will be realized.

We operate in multiple jurisdictions with complex tax policy and regulatory environments. In certain of these jurisdictions, we may take tax positions that management believes are supportable, but are potentially subject to successful challenge by the applicable taxing authority. These differences of interpretation with the respective governmental taxing authorities can be impacted by the local economic and fiscal environment. We evaluate our tax positions and establish liabilities in accordance with the applicable accounting guidance on uncertainty in income taxes. We review these tax uncertainties in light of changing facts and circumstances, such as the progress of tax audits, and adjust them accordingly. We have a number of audits in process in various jurisdictions. Although the resolution of these tax positions is uncertain, based on currently available information, we believe that it is more likely than not that the ultimate outcomes will not have a material adverse effect on our financial position, results of operations or cash flows.

Because there are a number of estimates and assumptions inherent in calculating the various components of our tax provision, certain changes or future events such as changes in tax legislation, geographic mix of earnings, completion of tax audits or earnings repatriation plans could have an impact on those estimates and our effective tax rate.

Acquisitions, Goodwill and Intangibles

We account for acquired businesses using the purchase method of accounting. Under the purchase method, our Consolidated Financial Statements include the operations of an acquired business starting from the completion of the acquisition. In addition, the assets acquired and liabilities assumed must be recorded at the date of acquisition at their respective estimated fair values, with any excess of the purchase price over the estimated fair values of the net assets acquired recorded as goodwill.

Significant judgment is required in estimating the fair value of intangible assets and in assigning their respective useful lives. Accordingly, we typically obtain the assistance of third-party valuation specialists for significant items. The fair value estimates are based on available historical information and on future expectations and assumptions deemed reasonable by management, but are inherently uncertain.

We typically use an income method to estimate the fair value of intangible assets, which is based on forecasts of the expected future cash flows attributable to the respective assets. Significant estimates and assumptions inherent in the valuations reflect a consideration of other marketplace participants and include the amount and timing of future cash flows (including expected growth rates and profitability), the underlying product or technology life cycles, the economic barriers to entry and the discount rate applied to the cash flows. Unanticipated market or macroeconomic events and circumstances may occur that could affect the accuracy or validity of the estimates and assumptions.

Determining the useful life of an intangible asset also requires judgment. Certain intangibles are expected to have indefinite lives based on their history and our plans to continue to support and build the acquired brands. Other acquired intangible assets (e.g., certain trademarks or brands, customer relationships, patents and technologies) are expected to have determinable useful lives. Our assessment as to trademarks and brands that have an indefinite life and those that have a determinable life is based on a number of factors including competitive environment, market share, trademark and/or brand history, underlying product life cycles, operating plans and the macroeconomic environment of the countries in which the trademarks or brands are sold. Our estimates of the useful lives of determinable-lived intangibles are primarily based on these same factors. All of our acquired technology and customer-related intangibles are expected to have determinable useful lives.

The costs of determinable-lived intangibles are amortized to expense over their estimated life. The value of indefinite-lived intangible assets and residual goodwill is not amortized but is tested at least annually for impairment. Our impairment testing for goodwill is performed separately from our impairment testing of indefinite-lived intangibles. We perform our annual impairment test for goodwill in the fourth quarter of each year. We have early-adopted the provisions of Accounting Standards Update (ASU) No. 2011-08, Intangibles - Goodwill and Other: Testing Goodwill for Impairment, which permits us to consider qualitative indicators of the fair value of a reporting unit when it is unlikely that a reporting unit has impaired goodwill.

In certain circumstances, we may also utilize a discounted cash flow analysis that requires certain assumptions and estimates be made regarding market conditions and our future profitability. In those circumstances we test goodwill for impairment by reviewing the book value compared to the fair value at the reporting unit level. We test individual

indefinite-lived intangibles by reviewing the individual book values compared to the fair value. We determine the fair value of our reporting units and indefinite-lived intangible assets based on the income approach. Under the income approach, we calculate the fair value of our reporting units and indefinite-lived intangible assets based on the present value of estimated future cash flows. Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows to measure fair value. Assumptions used in our impairment evaluations, such as forecasted growth rates and cost of capital, are consistent with internal projections and operating plans. We believe such assumptions and estimates are also comparable to those that would be used by other marketplace participants. When certain events or changes in operating conditions occur, indefinite-lived intangible assets may be reclassified to a determinable life asset and an additional impairment assessment may be performed.

We did not recognize any material impairment charges for goodwill or indefinite-lived intangible assets during the years presented as our annual impairment testing indicated that all reporting unit goodwill and indefinite-lived intangible asset fair values exceeded their respective recorded values. However, future changes in the judgments, assumptions and estimates that are used in our impairment testing for goodwill and indefinite-lived intangible assets, including discount and tax rates or future cash flow projections, could result in significantly different estimates of the fair values. A significant reduction in the estimated fair values could result in impairment charges that could materially affect the financial statements in any given year. The recorded value of goodwill and indefinite-lived intangible assets from recently acquired businesses are derived from more recent business operating plans and macroeconomic environmental conditions and, therefore, are more susceptible to an adverse change that could require an impairment charge.

We review long-lived assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows, which is at the individual asset level or the asset group level, as defined. Undiscounted cash flows expected to be generated by the related assets are estimated over their useful life based on updated projections. If the evaluation indicates that the carrying amount of the assets may not be recoverable, any potential impairment is measured based upon the fair value of the related assets or asset group as determined by an appropriate market appraisal or other valuation technique. Assets classified as held for sale are recorded at the lower of carrying amount or fair value less costs to sell.

Legal and Other Contingencies

We are involved in various proceedings, legal actions and claims arising in the normal course of business, including proceedings related to product, labor and intellectual property, and other matters that are more fully described in Note 7 to the Consolidated Financial Statements. The outcomes of these matters will generally not be known for prolonged periods of time. In certain of the legal proceedings, the claimants seek damages, as well as other compensatory and equitable relief, which 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. The estimates are based on consultation with legal counsel, previous settlement experience and settlement strategies. If actual outcomes are less favorable than those projected by management, additional expense may be incurred, which could unfavorably affect future operating results.

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.

NEW ACCOUNTING PRONOUNCEMENTS

No new accounting pronouncements that were issued or became effective during the year have had or are expected to have a material impact on our Consolidated Financial Statements. For a discussion of new accounting pronouncements, see Note 1 to our Consolidated Financial Statements.

OTHER INFORMATION

Hedging and Derivative Financial Instruments

We distribute our products throughout the world. As a result, our financial results could be significantly affected by factors such as weak economic conditions or changes in foreign currency exchange rates. Our operating results are primarily exposed to changes in exchange rates among the United States dollar, European currencies, in particular the euro, Swiss franc and the British pound, the Japanese yen, the Australian dollar and the Canadian dollar. We develop and manufacture products in the United States, China, France, Germany, Ireland, Puerto Rico and Switzerland and incur costs in the applicable local currencies. This worldwide deployment of facilities serves to partially mitigate the impact of currency exchange rate changes on our cost of sales.

We enter into forward currency exchange contracts to mitigate the impact of currency fluctuations on transactions denominated in nonfunctional currencies, thereby limiting risk that would otherwise result from changes in exchange rates. These nonfunctional currency exposures principally relate to intercompany receivables and payables arising

from intercompany purchases of manufactured products. The periods of the forward currency exchange contracts correspond to the periods of the exposed transactions, with realized gains and losses included in the measurement and recording of transactions denominated in the nonfunctional currencies. All forward currency exchange contracts are recorded at their fair value each period, with resulting gains (losses) included in other income (expense) in the Consolidated Statements of Earnings.

The estimated fair value of forward currency exchange contracts represents the measurement of the contracts at month-end spot rates as adjusted by current forward points. A hypothetical 10% change in foreign currencies relative to the United States dollar would change the December 31, 2011 fair value by approximately $48. We are exposed to credit loss in the event of non-performance by

counterparties on our outstanding forward currency exchange contracts, but we do not anticipate nonperformance by any of our counterparties.

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 currency exchange rates. For 2011, the strengthening of United States dollar relative to foreign currencies decreased the value of these investments in net assets and the related foreign currency translation adjustment loss in shareholders' equity by $20, to $176 from $196 at December 31, 2010.

Legal and Regulatory Matters

In April 2011 lawsuits brought by Hill-Rom Company, Inc. and affiliated entities 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 suits allege infringement under United States patent laws with respect to certain patient handling equipment manufactured and sold by us and seek damages and permanent injunctions. The Wisconsin lawsuit has subsequently been transferred to the United States District Court in Indiana. We intend to vigorously defend ourselves in these matters.

In the third quarter of 2010, we received a subpoena from the United States Department of Justice related to sales, marketing and regulatory matters related to the Stryker PainPump. Also in the third quarter of 2010, we received a subpoena from the United States Department of Justice related to the sales and marketing of the OtisKnee device. These investigations are ongoing.

In March 2010 a shareholder's derivative action complaint against certain of our current and former Directors and Officers was filed in the United States District Court for the Western District of Michigan Southern Division. This lawsuit was brought by the Westchester Putnam Counties Heavy and Highway Laborers Local 60 Benefit Funds and Laborers Local 235 Benefit Funds. The complaint alleges claims for breach of fiduciary duties and gross mismanagement in connection with certain product recalls, United States Food and Drug Administration (FDA) warning letters, government investigations relating to physician compensation and the criminal proceeding brought against our Biotech division. The case has been stayed while a Special Committee of the Board of Directors evaluates the claims.

In January 2010 a purported class action lawsuit against us was filed in the United States District Court for the Southern District of New York on behalf of those who purchased our common stock between January 25, 2007 and November 13, 2008, inclusive. The lawsuit seeks remedies under the Securities Exchange Act of 1934. In May 2010 the lawsuit was transferred to the United States District Court for the Western District of Michigan Southern Division. We are defending ourselves vigorously.

In 2009 a federal grand jury in the District of Massachusetts returned an indictment charging Stryker Biotech LLC and certain then-current employees and a former employee of Stryker Biotech with wire fraud, conspiracy to defraud the FDA, distribution of a misbranded device and false statements to the FDA. In January 2012 Stryker Biotech reached a settlement with the United States Attorney's Office for the District of Massachusetts, under which Stryker pled to one misdemeanor charge and paid a non-tax deductible fine of $15. As a result of this resolution, the Department of Justice dismissed all thirteen felony charges against Stryker Biotech contained in the 2009 federal grand jury indictment. All of the charges against the then-current and former employees of Stryker Biotech have also been dismissed.

In 2007, the United States Department of Health and Human Services, Office of Inspector General (HHS) issued a civil subpoena to us in 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. The investigation is ongoing and we have produced numerous documents and other materials to HHS in response to the subpoena.

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. Subsequently, in 2008, we received a subpoena from the United States Department of Justice, Criminal Division, requesting certain documents for the period since January 1, 2000 in connection with the SEC inquiry. We are fully cooperating with the United States Department of Justice and the SEC regarding these matters.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk are included in the "Results of Operations," “Financial Condition and Liquidity" and "Other Information" sections of Management's Discussion and Analysis of Financial Condition in Item 7 of this report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors and Shareholders of Stryker Corporation:

We have audited the accompanying consolidated balance sheets of Stryker Corporation and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stryker Corporation and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Stryker Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 13, 2012 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP
Grand Rapids, Michigan
February 13, 2012

Stryker Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF EARNINGS

	Years Ended December 31		
	2011	2010	2009
Net sales	$8,307	$7,320	$6,723
Cost of sales	2,811	2,286	2,184
Gross profit	5,496	5,034	4,539
Research, development and engineering expenses	462	394	336
Selling, general and administrative expenses	3,150	2,707	2,506
Intangible asset amortization	122	58	36
Property, plant and equipment impairment	—	124	—
Restructuring charges	76	—	67
Total operating expenses	3,810	3,283	2,945
Operating income	1,686	1,751	1,594
Other income (expense)	—	(22)	30
Earnings before income taxes	1,686	1,729	1,624
Income taxes	341	456	517
Net earnings	$1,345	$1,273	$1,107
Net earnings per share of common stock:			
Basic net earnings per share of common stock	$3.48	$3.21	$2.79
Diluted net earnings per share of common stock	$3.45	$3.19	$2.77
Weighted-average shares outstanding—in millions:			
Basic	386.5	396.4	397.4
Employee stock options	10.8	10.6	20.1
Less antidilutive stock options	(7.8)	(7.5)	(18.1)
Net effect of dilutive employee stock options	3.0	3.1	2.0
Diluted	389.5	399.5	399.4

See accompanying notes to Consolidated Financial Statements.

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

Stryker Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents	$905	$1,758
Marketable securities	2,513	2,622
Accounts receivable, less allowance of $56 ($57 in 2010)	1,417	1,252
Inventories		
Materials and supplies	185	158
Work in process	46	65
Finished goods	1,052	834
Total inventories	1,283	1,057
Deferred income taxes	820	653
Prepaid expenses and other current assets	273	290
Total current assets	7,211	7,632
Property, Plant and Equipment		
Land, buildings and improvements	600	554
Machinery and equipment	1,455	1,296
Total Property, Plant and Equipment	2,055	1,850
Less allowance for depreciation	1,167	1,052
Net Property, Plant and Equipment	888	798
Other Assets		
Goodwill	2,072	1,072
Other intangibles, less accumulated amortization of $535 ($465 in 2010)	1,442	703
Loaner instrumentation, less accumulated amortization of $795 ($684 in 2010)	318	291
Deferred income taxes	317	248
Other	157	151
Total assets	$12,405	$10,895
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$345	$292
Accrued compensation	444	418
Income taxes	116	47
Dividend payable	81	70
Accrued expenses and other liabilities	825	753
Current maturities of long-term debt	17	25
Total current liabilities	1,828	1,605
Long-Term Debt, excluding current maturities	1,751	996
Other Liabilities	1,143	1,120
Shareholders' Equity		
Common stock, $0.10 par value:		
Authorized: 1 billion shares, Outstanding: 381 million shares (391 million in 2010)	38	39
Additional paid-in capital	1,022	964
Retained earnings	6,479	6,017
Accumulated other comprehensive gain	144	154

Total shareholders' equity	7,683	7,174
Total liabilities & shareholders' equity	$12,405	$10,895

See accompanying notes to Consolidated Financial Statements.

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

Stryker Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Total
Balances at January 1, 2009	$40	$813	$4,390	$ 165	$5,408
Net earnings for 2009			1,107		1,107
Unrealized gains on securities, including $1.4 income tax expense				2	2
Unfunded pension gains, net of $8 income tax expense				17	17
Foreign currency translation adjustments				74	74
Comprehensive earnings for 2009					1,200
Issuance of 1.4 million shares of common stock under stock option and benefit plans, including $7 excess income tax benefit		25			25
Share-based compensation		62			62
Cash dividend declared of $0.25 per share of common stock			(99)		(99)
Balances at December 31, 2009	40	900	5,398	258	6,596
Net earnings for 2010			1,273		1,273
Unrealized loss on securities, including $0.3 income tax benefit				(2)	(2)
Unfunded pension loss, net of $14 income tax benefit				(21)	(21)
Foreign currency translation adjustments				(81)	(81)
Comprehensive earnings for 2010					1,169
Issuance of 1.5 million shares of common stock under stock option and benefit plans, including $11 excess income tax benefit		15			15
Share-based compensation		69			69
Cash dividends declared of $0.63 per share of common stock			(249)		(249)
Repurchase and retirement of 8.3 shares of common stock	(1)	(20)	(405)		(426)
Balances at December 31, 2010	$39	$964	$6,017	$ 154	$7,174
Net earnings for 2011			1,345		1,345
Unrealized loss on securities, including $1.2 income tax benefit				(2)	(2)
Unfunded pension gain, net of $8 income tax benefit				12	12
Foreign currency translation adjustments				(20)	(20)
Comprehensive earnings for 2011					1,335
Issuance of 1.6 million shares of common stock under stock option and benefit plans, including $6 excess income tax benefit		13			13
Share-based compensation		75			75
Cash dividends declared of $0.75 per share of common stock			(292)		(292)

Repurchase and retirement of 11.8 million shares of common stock	(1)	(30)	(591)		(622)
Balances at December 31, 2011	$38	$1,022	$6,479	$ 144	$7,683

See accompanying notes to Consolidated Financial Statements.

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

Stryker Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2011	2010	2009
Operating Activities			
Net earnings	$1,345	$1,273	$1,107
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	160	165	165
Amortization	321	245	220
Share-based compensation	75	69	62
Restructuring charges	76	—	67
Property, plant and equipment impairment	—	124	—
Payments of restructuring charges	(29)	(9)	(47)
Sale of inventory stepped-up to fair value at acquisition	143	7	—
Deferred income tax credit	(164)	(104)	(73)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(152)	(121)	(10)
Inventories	(166)	(131)	34
Loaner instrumentation	(224)	(193)	(188)
Accounts payable	44	96	(80)
Accrued expenses and other liabilities	158	91	66
Income taxes	(95)	(24)	192
Other	(58)	59	(54)
Net cash provided by operating activities	1,434	1,547	1,461
Investing Activities			
Acquisitions, net of cash acquired	(2,066)	(265)	(570)
Purchases of marketable securities	(6,779)	(5,619)	(4,602)
Proceeds from sales of marketable securities	6,869	5,210	3,974
Purchases of property, plant and equipment	(226)	(182)	(131)
Proceeds from sales of property, plant and equipment	67	61	1
Net cash used in investing activities	(2,135)	(795)	(1,328)
Financing Activities			
Proceeds from borrowings	178	100	17
Payments on borrowings	(190)	(81)	(20)
Proceeds from issuance of long-term debt, net	749	996	—
Dividends paid	(279)	(238)	(198)
Repurchase and retirement of common stock	(622)	(426)	—
Other	3	59	8
Net cash provided by (used in) financing activities	(161)	410	(193)
Effect of exchange rate changes on cash and cash equivalents	9	(63)	