STRYKER CORP
Form 10-K
February 26, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from to

Commission file number: 000-09165

STRYKER CORPORATION

(Exact name of registrant as specified in its charter)

Michigan	38-1239739
(State or other jurisdiction of incorporation or organization)	(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 x 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 x

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 x NO ¨

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

YES x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. x

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. (Check one):

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 x

Based on the closing sales price of June 30, 2009, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $13,503,370,084.

The number of shares outstanding of the registrant s Common Stock, $.10 par value, was 398,051,370 at January 31, 2010.

Table of Contents

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement to be filed with the U.S. Securities and Exchange Commission relating to the 2010 Annual Meeting of Shareholders (the 2010 proxy statement) are incorporated by reference into Part III.

FORWARD-LOOKING STATEMENTS

This report contains information that includes or is based on forward-looking statements within the meaning of the federal securities law that are subject to various risks and uncertainties that could cause the Company s actual results to differ materially from those expressed or implied in such statements. Such factors include, but are not limited to: weakening of economic conditions that could adversely affect the level of demand for the Company s products; pricing pressures generally, including cost-containment measures that could adversely affect the price of or demand for the Company s products; changes in foreign exchange markets; legislative and regulatory actions; unanticipated issues arising in connection with clinical studies and otherwise that affect U.S. Food and Drug Administration approval of new products; changes in reimbursement levels from third-party payors; a significant increase in product liability claims; unfavorable resolution of tax audits; changes in financial markets; and changes in the competitive environment.

While the Company believes the assumptions underlying such forward-looking statements are reasonable, there can be no assurance that future events or developments will not cause such statements to be inaccurate. All forward-looking statements contained in this report are qualified in their entirety by this cautionary statement.

REGISTERED TRADEMARKS AND TRADEMARKS

Stryker Corporation or its divisions or other corporate affiliated entities own, use or have applied for the following trademarks in this Report: 3-Chip, ABG, Accolade, Ascent Healthcare Solutions, Asnis, AxSOS, AVS, BackSmart, Big Wheel, CentPillar, CerviCore, Chaperone, Colorado, Cormet, Dall-Miles, Dynatron, Exeter, FlexiCore, Formula, Flyte, Gamma, Gamma3, GMRS, Hoffmann, Howmedica, HydroSet, IDEAL EYES, InterPulse, InTouch, iSuite, LFIT, Maestro, Mantis, Monotube, Neptune, NRG, OASYS, Omnifit, OP-1, PainPump, PneumoSure, Power-PRO, PureFix, Radius, Reflex, Rejuvenate, RemB, Restoration, ReUnion, Revolution, S3, Scorpio, Secur-Fit, Sightline, Simplex, SmartLock, Solar, SpineCore, Stair-PRO, Steri-shield, Stryker, Stryker Orthopaedics, Stryker Precision, Sumex, System 6, SwitchPoint Infinity, T2, TenXor, THOR, TMZF, Triathlon, Trident, Tritanium, UHR, VariAx, VLIFT, X3, Xia and Zoom. All other trademarks or service marks are trademarks or service marks of their respective owners or holders.

Not all products referenced in this report are approved or cleared for sale, distribution or use in the United States.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. BUSINESS.

GENERAL

Stryker Corporation (the Company or Stryker) is one of the world s leading medical technology companies with the most broadly based range of products in orthopaedics and a significant presence in other medical specialties. Stryker works with respected medical professionals to help people lead more active and more satisfying lives. The Company s products include implants used in joint replacement, trauma, spinal and craniomaxillofacial surgeries; surgical equipment and surgical navigation systems, endoscopic and communications systems; patient handling and emergency medical equipment as well as other medical device products used in a variety of medical specialties. Stryker was incorporated in Michigan in 1946 as the successor company to a business founded in 1941 by Dr. Homer H. Stryker, a leading orthopaedic surgeon and the inventor of several orthopaedic products.

Stryker s filings with the U.S. Securities and Exchange Commission (SEC), including its annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, are accessible free of charge at www.stryker.com within the Investor SEC Filings & Ownership Reports link.

In 2009 the Company acquired Ascent Healthcare Solutions, Inc. for $525 million in an all cash transaction. In 2007 the Company completed the sale of its outpatient physical therapy business, Physiotherapy Associates, for $150 million in cash less certain indebtedness. Physiotherapy Associates operating results are reported as discontinued operations for the year ended December 31, 2007.

PRODUCT SALES

The Company segregates its operations into two reportable business segments: Orthopaedic Implants and MedSurg Equipment. The Orthopaedic Implants segment sells orthopaedic reconstructive (hip and knee), trauma and spinal implant systems and other related products. The MedSurg Equipment segment sells surgical equipment and surgical navigation systems; endoscopic and communications systems; as well as patient handling and emergency medical equipment. The following amounts and percentages represent domestic/international and business segment net sales during each of the three years ended December 31 (dollars in millions):

	2009		2008		2007	
	$	%	$	%	$	%
Domestic/international sales:						
Domestic	$ 4,317.4	64%	$ 4,282.2	64%	$ 3,850.3	64%
International	2,405.7	36%	2,436.0	36%	2,150.2	36%
Total net sales	$ 6,723.1	100%	$ 6,718.2	100%	$ 6,000.5	100%
Business segment sales:						
Orthopaedic Implants	$ 4,119.7	61%	$ 3,967.5	59%	$ 3,587.3	60%
MedSurg Equipment	2,603.4	39%	2,750.7	41%	2,413.2	40%
Total net sales	$ 6,723.1	100%	$ 6,718.2	100%	$ 6,000.5	100%

Additional financial information regarding the Company s operating segments and geographic areas can be found under the captions *Results of Operations* in Item 7 of this report and Note 14 to the Consolidated Financial Statements in Item 8 of this report.

Approximately 77% of the Company s sales in 2009 and 74% in both 2008 and 2007 consisted of products with short lives, such as reconstructive, trauma, craniomaxillofacial and spinal implant systems (while implants

1

Table of Contents

have a long useful life to the patient, they have a one-time use to the hospital); disposables and expendable tools; and parts and service revenues, including service and repair charges. The balance of sales in each of the years came from products that could be considered capital equipment, having useful lives in excess of one year.

The Company s backlog of firm orders is not considered material to an understanding of its business.

Orthopaedic Implants

Orthopaedic Implants are designed and manufactured by Stryker Orthopaedics, Stryker Osteosynthesis, Stryker Spine and Stryker Biotech and consist of such products as implants used in joint replacement, trauma, craniomaxillofacial and spinal surgeries; bone cement; and the bone growth factor OP-1. Artificial joints are made of cobalt chromium, titanium alloys, ceramics or ultrahigh molecular weight polyethylene and are implanted in patients whose natural joints have been damaged by arthritis, osteoporosis, other diseases or injury. Many of Stryker s technologically advanced reconstructive implants are suited to minimally invasive surgery (MIS) procedures that are intended to reduce soft-tissue damage and pain while hastening return to function. The Company supports surgeons with technology, procedural development and specialized instrumentation as they develop new MIS techniques.

Hip Implant Systems

Through Stryker Orthopaedics, the Company offers a variety of hip implant systems for the global reconstructive market. The ABG Hip System, Partnership Hip System, Secur-Fit Hip System, Omnifit Hip System, Accolade Hip System, Centpillar Hip System, Trident Acetabular Hip System, ADM Mobile Bearing Hip System, Rejuvenate Modular Primary Hip System, Cormet Hip Resurfacing System and Restoration Hip System are all comprehensive systems of hip implants and associated instrumentation designed to provide physicians and patients with reliable clinical results across the continuum of care, while enhancing value and operating room efficiency for the hospital.

During 2009 significant clinical milestones for the Company were met, including 40 years of clinical history with the Exeter Hip System, 25 years of clinical history with the Dall-Miles Cable System, more than 20 years of clinical history with the Omnifit HA stem, and more than 10 years clinical history with Accolade TMZF Hip System. Stryker is committed to following clinical outcomes and recognizes that long-term clinical results are an important factor in the Company s ability to market hip implants.

Stryker was the first company to receive clearance from the FDA to commercially release for sale in the United States a hip implant with hydroxylapatite (HA) surface treatment. HA is a naturally occurring calcium phosphate material that demonstrates a high level of biocompatibility due to its resemblance to bone. The Company s global clinical experience with HA-coated hip stems now extends over 20 years, and reported clinical performance continues to equal or exceed that of comparable hip stems reported in the scientific literature.

Primary Femoral Hip Systems:

In 2009 Stryker introduced the Rejuvenate Modular Primary Hip System, the latest evolution in the Company s OmniFit and Secur-Fit hip systems. The Rejuvenate Modular Primary Hip System offers surgeons unparalleled options for personalizing the implant to each patient s anatomy. The Rejuvenate System is designed to optimize anatomic restoration by providing options that offer enhanced stability, proven modularity and intraoperative flexibility. The modular design enables the surgeon to independently manage stem size, leg length, version and offset to recreate the patient s anatomy, restore biomechanics and, consequently, minimize the risk of dislocation.

The Accolade TMZF Hip System has demonstrated strong clinical results for more than 10 years, with 2009 marking the first introduction of the product into Japan. Recognized for simplicity, and flexible to accommodate all surgical approaches and navigation, the Accolade TMZF System is a tapered wedge implant, based on a broach only technique.

Table of Contents

The ABG II Modular Hip System, released in Europe in 2007, represents the next generation of design based on the ABG monolithic stem that has had positive clinical experience for more than 10 years. This modular primary hip stem provides the opportunity to recreate patient anatomy through independent sizing of the stem and neck. Versatile instrumentation also accommodates surgeon preference for a navigated procedure or direct anterior surgical approach.

The Company s Exeter Total Hip System is based on a collarless, highly polished, double-tapered femoral design that reduces shear stresses and increases compression at the cement/bone interface.

Primary Acetabular Systems:

The Company s advanced bearing system, Low Friction Ion Treatment (LFIT) Anatomic Femoral Heads with X3 polyethylene liners represents a significant advance in hip-bearing technology through the combination of Stryker s LFIT technology and X3 advanced bearing technology. The femoral heads are anatomically sized for more natural hip performance. In 2007 the Company further expanded its anatomic femoral head offerings with the introduction of the Biolox Delta Ceramic Anatomic head for even greater options to reduce wear and potentially increase implant longevity. X3 advanced bearing technology is the Company s highly crosslinked polyethylene, which demonstrates enhanced material characteristics in laboratory testing, including improved strength, reduced wear and oxidation resistance. This second generation bearing option offers a significant technological advance for both hip and knee replacements.

The Company received premarket approval (PMA) from the FDA in 2003 for its ceramic-on-ceramic hip replacement system, the Trident Ceramic Acetabular Insert, for patients in the United States. Stryker Orthopaedics has successfully launched the Trident ceramic insert in the United States, Europe, Australia and Canada. The Trident insert has demonstrated low wear clinically, and it is protected and strengthened by a patented titanium sleeve.

In 2009 the Company introduced the Primary Tritanium Shell in Latin America, Australia, and Europe following a US launch in 2008. Introduction of this highly porous surface into the primary hip market provides an enhanced fixation acetabular solution that was previously not available for primary use.

Hip Fracture Hip Systems:

Stryker offers a broad array of femoral stem options and bearings to accommodate the hip fracture patient including the Accolade HFx stem and the UHR bipolar head.

Revision Hip Systems:

The Restoration Modular Revision Hip System offers surgeons performing revision surgeries flexibility in treating complex hip stem revisions and restoring patient biomechanics. The Restoration Modular Revision Hip System also takes advantage of Stryker s long clinical history with HA by incorporating PureFix HA coating on many components. The Restoration Modular Revision Hip System complements the Company s existing Restoration HA and Restoration plasma spray (PS) monolithic revision systems.

The Company s Trident Tritanium Acetabular Shell contains a highly porous surface that closely resembles the structure of bone. This shell is designed for revision surgery and contains multiple screw holes to achieve bone fixation and initial stability.

Resurfacing Hip Systems:

In 2007 the Company began selling the Cormet Hip Resurfacing System in the United States pursuant to an exclusive 10-year marketing and distribution agreement with Corin Group PLC following the initial launch of

Table of Contents

another hip resurfacing product in certain international markets. These products represent a less invasive option for younger patients who have the potential for enhanced stability and range of motion. In hip resurfacing procedures, very little bone is removed from the femoral head, the femoral neck is preserved and the femoral canal is spared.

Knee Implant Systems

The Company offers three major knee implant systems: Triathlon, Scorpio and the Global Modular Replacement System (GMRS).

The Triathlon Knee System represents the Company s evolutionary design that has been developed to more closely reproduce natural knee motion and is designed to provide mobility with stability through more than 150 degrees of flexion. The Triathlon Knee instrumentation is designed to improve operating room efficiency through a streamlined, integrated system providing options and flexibility to meet surgeons varying preferences and multiple surgical techniques. In 2008, Stryker continued to expand the Triathlon brand with the Trtiathlon Partial Knee Resurfacing (PKR) offering in the uni-condylar market segment. The PKR incorporates the single radius design to provide the potential for better ligament balancing. PKR also offers value and efficiency in the femoral component design by only requiring one femoral cutting block for preparation of all sizes of femoral components. In 2007 Stryker introduced the condylar stabilizing (CS) ultra-congruent insert for the Triathlon Knee System. The Triathlon CS insert is a high-performance insert designed to provide patients with more natural motion and the potential for greater implant longevity. The Company also offers the X3 advanced bearing technology as well as anterior referencing instruments for use with the Triathlon Knee System. The Company also offers a posteriorly stabilized (PS) version of the Triathlon knee and a cruciate-retaining (CR) version.

The GMRS is a global product that offers a comprehensive solution for severe bone loss in oncology, trauma and revision surgery patients. GMRS has tibial and femoral components, including a total femur, and a modular rotating hinge knee. The system employs both titanium and cobalt chrome alloys for strength and lightness of weight, together with the superior flexibility of the hinge. The MRS, the predecessor to the GMRS, was the first modular segmental replacement system when it was introduced in 1988. These system components have maintained a leadership position in this market segment since their introduction.

The Scorpio knee implant design is based on the epicondylar axis of the knee. This patented approach addresses significant clinical issues, such as improved patient rehabilitation and midflexion stability, through an increase in the patella-femoral moment arm and a single anterior-posterior radius. The Scorpio HA CR product is designed to minimize polyethylene wear and the Scorpio HA PS product features a minimally invasive open box design and maximized stability. The ScorpioFlex, which is available for both posterior cruciate-retaining and cruciate-substituting indications, is specifically designed for patients who have the ability and motivation to return to high-flexion activities such as gardening and golfing.The Scorpio NRG provides additional kinematic benefits over ScorpioFlex, including increased rotational allowance, an articulating design for deeper flexion and greater extension allowance without impingement. In 2007 the Scorpio NRG with X3 advanced bearing technology was launched. This new version of the Scorpio NRG is designed to lower wear rates compared with standard inserts. The Scorpio System is supported by the Passport instrumentation system, which was designed to provide intraoperative flexibility and precision as well as a simple, cost-effective approach to total knee replacement surgery.

Other Joint Replacement Products

The Company develops and markets shoulder and elbow replacement implants, as well as associated instrumentation. The Solar Shoulder portfolio provides surgeons with increased intra-operative flexibility to restore the patient s shoulder functionality and pain relief. These products are marketed worldwide under the ReUnion and Solar brands.

Table of Contents

Bone Cement

Simplex bone cement, a material used to secure cemented implants to bone, was first approved for orthopaedic use in the United States in 1971 and is the most widely used bone cement in the world. The Company manufactures and provides several variations of Simplex bone cement to meet specific patient needs. Simplex has nearly 50 years of clinical history, the longest of any bone cement, with more than 400 published clinical papers.

Trauma Implant Systems

Through Stryker Osteosynthesis, the Company develops, manufactures and markets trauma, extremities and deformity correction systems. These systems include Intramedullary (IM) and cephlomedullary nails, locked and non-locked plating, hip fracture solutions and external fixation systems, as well as bone substitutes that are used primarily for the treatment of traumatic injuries.

The Company s internal fixation portfolio includes a full array of IM & cephlomedullary nails; hip fracture solutions, including compression hip screws, canulated screws, as well as anatomically designed plates and screws in both titanium and stainless steel. These products provide a restorative option prior to joint reconstruction. These products are marketed worldwide as leading brands such as Gamma3, Asnis III, AxSOS, VariAx, HydroSet, and T2.

The Company s external fixation portfolio includes products such as Hoffmann II MRI, Hoffmann Xpress, Monotube Triax mono-lateral, as well as the Hoffmann II Hybrid (TenXor) circular fixation systems. These systems are used to construct frames for bone stabilization that are either definitive or as a temporary step in the treatment process associated with damage control orthopaedics. Hoffmann systems have been defined by their ease of assembly with snap-fit couplers. The use of a proprietary Vectran coating on the bars makes Hoffmann II MRI an MRI compatible solution.

The Company also offers a product portfolio for the treatment of fractures and injuries of the extremities. These products include fracture specific locked plating for the wrist, shoulder and foot, as well as bone substitutes and external fixation systems. These are all designed to treat the unique nature of upper extremity injuries. These products are marketed worldwide under the brands VariAx, AxSOS, and Hoffmann.

The VariAx Distal Radius System offers surgeons a comprehensive solution for the treatment of wrist fractures. These titanium plates are anatomically designed and offer poly-axial SmartLock technology. SmartLock enables surgeons to place either locking or non-locking screws at angles of up to 15-degrees, which allows the surgeon to target specific bone fragments for fixation. The VariAx Hand Plating and Foot Plating Systems were launched in 2008 and expanded the treatable indications for the wrist (hand) and for the hind, mid and fore foot, all under the same poly-axial SmartLock platform.

Spinal Implant Systems

Through Stryker Spine, the Company develops, manufactures and markets spinal implant products including cervical, thoracolumbar and interbody systems used in spinal injury, deformity and degenerative therapies. Spinal implant products include plates, rods, screws, connectors, spacers and cages, along with proprietary implant instrumentation.

In 2009 the Company introduced the Xia 3 Sacral Iliac system that completes the thoracolumbar system and makes it one of the most comprehensive platforms on the market. Also in 2009, the Company introduced the Dynatran-Dynamic/Translational Anterior Cervical Plate which expands the Company s presence in the cervical space with its unique locking mechanism. In 2008 the Company introduced the Radius Thoracolumbar Spinal Implant System. The Radius system provides a non-threaded wedgelock locking mechanism designed to

Table of Contents

reduce the potential for false locking and cross-threading and to increase the speed, ease and reliability of connecting rods to screws. Also in 2008, the Company launched Xia 3, the next generation of its thoracolumbar spinal implant system and THOR, its anterior lumbar plating system that incorporates a proprietary screw locking technology. In 2007 the Company introduced the Mantis minimally invasive access system for posterior instrumented spinal fusion and the Reflex Zero Profile anterior cervical plating system. The Company also offers the VLIFT vertebral body replacement system consisting of a preassembled, cylindrically shaped titanium cage with a distractible or retractable center. The hollow core of the cage allows for packing bone graft. The Company s AVS AS and AL Spacers are used as vertebral body support devices in anterior procedures. Other product lines include the OASYS fixation system that serves the posterior cervical fusion market, the Reflex Hybrid anterior cervical plate and the AVS PL and TL vertebral spacer systems.

Craniomaxillofacial (CMF) Implant Systems

Through Stryker Osteosynthesis, the Company develops, manufactures and markets plating systems and related implants and products for craniomaxillofacial surgery. These products include plating systems, dura substitutes, bone substitutes, electrosurgical microdissection needles and surgical instruments. They are primarily used in the fixation of fractures due to sudden injury as well as in the correction of congenital deformities. These products are marketed under such names as the Universal Fixation System, Colorado Needle, DuraMatrix-Onlay, Leibinger Instruments and HydroSet.

OP-1/BMP-7

Stryker s OP-1 Implant is composed of recombinant human OP-1 and a bioresorbable collagen matrix. Stryker has received two approvals for a Humanitarian Device Exemption (HDE) from the FDA. An HDE, as defined by the FDA, is for a product intended to benefit patients by treating or diagnosing a disease or condition that affects fewer than 4,000 individuals per year in the United States. The first is for the use of OP-1 Implant as an alternative to autograft in recalcitrant long-bone nonunions where use of autograft is not feasible and alternative treatments have failed. The second is for revision posterolateral spine fusion using a new formulation of OP-1 known as OP-1 Putty. In March 2009, the FDA Orthopaedic and Rehabilitation Devices Advisory Panel voted not to recommend that the Company receive broad-based marketing approval for its OP-1 Putty.

Stryker filed a Marketing Authorization Application (MAA) with the European Medicines Evaluation Agency for the posterolateral lumbar spine fusion indication in 2006 under the name Opgenra. In 2008 the Committee for Medicinal Products for Human Use in Europe recommended this indication for approval. The Opgenra product has not yet been launched in Europe.

In 2006 Stryker filed an investigational device exemption (IDE) application with the FDA to start a pilot clinical study in transforaminal lumbar interbody fusions using OP-1 Putty. The IDE was approved and patient recruitment was completed in 2008.

Stryker is also interested in exploring the cartilage regeneration properties of BMP-7 and has successfully completed preclinical studies showing that BMP-7 can stimulate new cartilage formation and increase disc height in animal models of degenerative disc disease. In 2005 Stryker filed its first Investigational New Drug (IND) application with the FDA to treat degenerative disc disease with a new injectable form of BMP-7 in a dose-ranging study in humans. In 2008 the Company completed enrollment in this Phase I dose-ranging clinical safety study for the first time use of BMP-7 to treat the disc. In 2006 Stryker filed an IND application with the FDA to treat osteoarthritis in the knee with the injectable form of BMP-7. Following FDA concurrence in 2007, the Company proceeded with patient enrollment in the Phase I clinical study, which was completed in 2008. Based on the results of that study, a Phase II protocol has been submitted to the FDA with the intention of beginning a clinical trial in the same indication in 2010.

The Company is in the process of reviewing its strategic alternatives for the use of OP-1.

Table of Contents

MedSurg Equipment

MedSurg Equipment products include surgical equipment and surgical navigation systems; endoscopic and communications systems and patient handling and emergency medical equipment. These products are designed and manufactured by Stryker Instruments, Stryker Endoscopy and Stryker Medical.

Surgical Equipment and Surgical Navigation Systems

Through Stryker Instruments, the Company offers a broad line of surgical, neurologic, ENT and interventional spine equipment that is used in surgical specialties for drilling, burring, rasping or cutting bone in small-bone orthopaedics, neurosurgical, spine and ENT procedures; wiring or pinning bone fractures; and preparing hip or knee surfaces for the placement of artificial implants. Stryker Instruments also manufactures an array of different attachments and cutting accessories for use by orthopaedic, neurologic and small-bone specialists.

The System 6 heavy duty, large-bone power system represents the Company s primary heavy-duty, cordless product offering. This system, which includes several attachments, is more powerful and has a longer battery life than its predecessor. The System 6 Rotary Handpieces provide multiple options to surgeons by allowing both high-speed drilling and high-torque reaming in one handpiece. System 6 Heavy Duty Saws provide increased torque for a faster and more efficient cut.

In 2009 Stryker introduced the RemB micro electric system, combining the Company s Consolidated Operating Room Equipment (CORE) platform with lightweight, specialized handpieces, allowing surgeons to work effectively with greater precision and control. This versatile system is an evolution in the Company s offering of powered surgical instruments designed to remove and reshape bone in a wide variety of medical specialties including hand surgery, podiatry, orthopaedic foot and ankle surgery and extremity trauma surgery. The Maestro drill represents Stryker s line of micro powered instruments for spine, neurology and ENT applications. Employing the pneumatic technology that is the preference of many surgeons in these specialties, the Maestro drill leverages the Company s Total Performance System (TPS) and CORE platforms by using the same cutting attachments. The Stryker Bone Mill, launched in 2008, further leverages the CORE platform and is designed for use in spine, orthognathic and orthopaedic primary and revision joint procedures. The Bone Mill provides the ability to morselize both autograph and allograft bone quickly and efficiently and provide consistent granulation of bone in 3 sizes depending on the need of the surgeon. In 2007 Stryker introduced the CORE Sumex drill, designed for use in ENT procedures, to leverage the Company s CORE platform. The Sumex drill utilizes electronic torque feedback to increase RPM s when the drill is engaged in more demanding tasks. In addition, the Sumex drill incorporates a tapered front end to allow for better surgeon line of sight.

The Company s Stryker Precision Oscillating Tip Saw is an innovative saw incorporating a stationary cartridge blade shaft with an oscillating tip in contrast with standard surgical saws with oscillating blades. This feature gives surgeons the opportunity for greater accuracy while simplifying cuts and reducing the potential for soft tissue damage and facilitating less invasive procedures. This saw represents an advance in procedural simplification, offering customers the potential for time and cost savings by reducing the number of steps in the surgical process.

Stryker Instruments also produces disposable products that are utilized in conjunction with joint replacement surgery. These products include the Revolution Cement Mixing System, designed to provide one solution for mixing all surgical cements, in addition to offering mixing efficacy, safety and ease of use; the InterPulse, a self-contained pulsed lavage system used by surgeons to cleanse the surgical site during total joint arthroplasty; and the ConstaVac CBC II Blood Conservation System, a postoperative wound drainage and blood reinfusion device that enables joint replacement patients to receive their own blood rather than donor blood.

To serve the postsurgical technology market, the Company offers the PainPump2 and BlockAid products that are designed for continuous nerve block applications and enable the delivery of a local anesthetic to specific neurologic anatomy. The pumps facilitate peri-operative pain control by allowing physicians to program the

Table of Contents

pump and offer a patient-controlled analgesia (PCA) option of non-narcotic medication to manage break-through pain. The Blockaid also offers a reprogramming feature, previously unavailable to the market in a disposable, single-use pump.

To promote safety for patients and medical staff, Stryker works closely with hospitals and other healthcare organizations to develop a broad product portfolio. In 2009 the Company introduced the Flyte personal protection system, the latest version of Stryker s Sterishield line of personal protection products combining improved comfort and support with higher levels of protection against contamination, exposure to infectious bodily fluids and transfer of microorganisms and particulate matter. Additionally, Flyte s integrated helmet with illumination represents enhancements aimed towards improving the surgical environment.

The Neptune Waste Management System represents Stryker s leading product for liquid waste management in the operating room. The self-contained device, first introduced in 2000 and consistently improved, collects and disposes of fluid and smoke waste from surgical procedures, minimizing the need for operator intervention and, therefore, the risk of exposure to these waste byproducts. In 2008 Stryker introduced the Neptune 2 Waste Management platform. This next-generation system allows for increased fluid collection capacity while enhancing end user system preferences based on surgical procedures.

Through Stryker Instruments, the Company offers a broad line of surgical navigation systems that give surgeons in several specialties the ability to use electronic imaging to see more clearly, better align instruments and more accurately track where the instruments are relative to a patient s anatomy during surgical procedures. The Company offers the Navigation System II Cart, the eNlite suitcase system, which creates a smaller footprint in the operating room while retaining the full functionality of all software programs offered on the Navigation System II Cart, and the Navigation iSuite, a fully integrated navigation system housed in the ceiling and walls of an existing operating room. All of these product offerings are either image based or imageless platforms, incorporating intuitive Smart hardware and software functionality, and a highly accurate digital infrared camera that result in greater ease of use, less invasive procedures, and reduced surgical time.

Endoscopic and Communications Systems

Stryker Endoscopy develops, manufactures and markets medical video-imaging and communications equipment and instruments for arthroscopy, general surgery and urology. Stryker Endoscopy has established a position of leadership in the production of medical video-imaging technology and accessories for minimally invasive surgery, as well as communications equipment to facilitate local and worldwide sharing of medical information among operating rooms, doctors offices and teaching institutions. Products include medical video cameras, digital documentation equipment, digital image and viewing software, arthroscopes, laparoscopes, powered surgical instruments, sports medicine instrumentation, radio frequency ablation systems, irrigation fluid management systems, i-Suite operating room solutions and state-of-the-art equipment for telemedicine and enterprise-wide connectivity. Stryker s line of rigid scopes, which range in diameter from 1.9 millimeters to 10 millimeters, contains a series of precision lenses as well as fiber optics that, when combined with Stryker s high-definition (HD) camera systems, allow the physician to view internal anatomy with a high degree of clarity.

In 2009 Stryker introduced the 1288 HD Camera, the next generation of Stryker 3-chip HD medical video camera. This latest version has HD 1080p resolution with wireless high definition transmission to the new Stryker WiSe wide screen monitor system. This new camera system provides superior image quality compared to previous camera systems and usability through customized programmable buttons. This product provides surgical teams with improved visibility during endoscopic procedures, which can improve overall surgical and patient outcomes. In conjunction with the launch of the 1288 HD Camera, Stryker also introduced the L-9000 lightsource. This new lightsource includes proprietary LED technology that provides the customer with a cooler and longer lasting bulb. Also introduced was the IDEAL EYES line of HD arthroscopes and laparoscopes. To accommodate the recording of HD images, the Company offers the SDC HD digital documentation system. The Company also offers its Formula shaver system, which is small, light and equipped with radio frequency identification (RFID), facilitating communication between the blade and console.

Table of Contents

In 2008 Stryker introduced the High Definition Digital Radiography (HDDR) 3000, a space efficient and multifunctional direct digital radiography system designed to accommodate the demanding requirements of modern orthopaedic practices. The HDDR 3000 features a Q-arm design with the x-ray tube always centered to the detector for fast, precise and convenient patient positioning. The system efficiently performs all general radiographic procedures with a single detector.

In 2007 the Company launched the Stryker Digital Capture (SDC) Ultra, an all-in-one medical imaging information management system allowing for patient scheduling, video capture and storage, DVD burning and other capabilities. The SDC Ultra archives surgical images and videos on its 250-gigabyte internal hard drive. This system also allows for the recording of all surgical footage in high-definition video. Through dual-channel input support, the SDC Ultra can capture images and video independently on two separate video channels, in synchronized mode or in picture-in-picture format.

Also in 2007 Stryker introduced the 45L PneumoSure insufflator that provides exceptional performance with enhanced safety and reliability. This new insufflator is designed to handle the needs of today s dynamic surgical environment and includes two additional modes for bariatric and vessel harvesting. The 45L PneumoSure insufflator offers real-time pressure sensing for increased accuracy during a procedure. Its ability to maintain pneumoperitoneum under the most extreme conditions, coupled with a fully integrated color touch screen, allows for increased ease of use.

Patient Handling and Emergency Medical Equipment

Stryker Medical is a leader in the patient handling equipment segment, offering a wide variety of stretchers customized to fit the needs of acute care and specialty surgical care facilities with a focus on providing a safe and comfortable surface for patients while reducing the risk of back injury for hospital staff. The Company offers the M-Series Stretcher, which has become the standard in patient mobility. The M-Series Stretcher incorporates the Company s BackSmart side rail design elements, reducing the risk of back injury for caregivers; the Zoom Motorized Drive System, virtually eliminating push force; Big Wheel technology, reducing start-up force by up to 50 percent and increasing maneuverability; and a 700-pound weight capacity. The Company s Glide Lateral Air Transfer System allows two caregivers to easily transfer even the largest patients while reducing the risk for caregiver back injury by lifting and floating the patient on a cushion of air.

Stryker Medical also develops and manufactures beds and accessories that are designed to meet the unique needs of specialty departments within the acute care environment. In 2008 the Company introduced the redesigned S3 Med/Surg Hospital Bed, the first redesign since its original 1994 introduction, combining a retractable frame with the Company s BackSmart ergonomically designed side rails and featuring an open architecture to accept any standard support surface. The S3 offers the Chaperone center-of-gravity bed-exit system with Zone Control to help prevent patient falls, as well as iBed Awareness, an exclusive technology that monitors safe patient bed positions and alerts caregivers in the event that the desired, safe bed configuration is altered. In 2007 the Company introduced the InTouch, the first high-acuity care bed to combine advanced technology, intuitive operation and BackSmart ergonomics to the benefit of both patients and caregivers. In 2009 the Company introduced the Impression non-powered support surface designed to improve pressure redistribution, enhance patient comfort and provide enhanced moisture management similar to that achieved by powered support surfaces. Stryker has a complete line of intensive care unit (ICU) beds for critical care and step-down units. The beds incorporate advanced features that facilitate patient care, such as in-bed scales that accurately weigh the patient regardless of bed position and a radiolucent surface that facilitates chest x-rays without moving the patient from the bed. Stryker s XPRT support surface, with low air loss, percussion and rotational therapy, aids in the prevention and treatment of certain skin ulcers and pulmonary care.

To serve the worldwide pre-hospital market, the Company offers a line of manually operated and powered ambulance cots and cot-to-ambulance fastening systems. In addition, Stryker offers the Stair-PRO stair chairs with Stair-TREAD track systems that facilitate patient transport up and down stairs. The Company s Power-PRO

Table of Contents

ambulance cot incorporates an advanced battery-powered hydraulic lift system that enables emergency medical professionals to raise and lower the cot with the press of a button. The use of Stair-PRO and the Power-PRO helps prevent caregiver back injuries. Stryker expanded the Power-PRO line with a version customized to carry transport incubators on both inter-facility and intra-facility transports and with a version customized for ambulances that use hydraulic tail lifts or ramps that are popular in the United Kingdom.

PRODUCT DEVELOPMENT

Most of the Company s products and product improvements have been developed internally. The Company maintains close working relationships with physicians and medical personnel in hospitals and universities who assist in product research and development. New and improved products play a critical role in the Company s sales growth. The Company continues to place emphasis on the development of proprietary products and product improvements to complement and expand its existing product lines. The Company has a decentralized research and development focus, with manufacturing locations responsible for new product development and product improvements. Research, development and engineering personnel at the various manufacturing locations maintain relationships with staff at distribution locations and with customers to understand changes in the market and product needs.

Total expenditures for product research, development and engineering were $336.2 million in 2009, $367.8 million in 2008 and $375.3 million in 2007. Research, development and engineering expenses represented 5.0% of sales in 2009, compared with 5.5% in 2008 and 6.3% in 2007. The spending level in 2009 decreased due to the Company s tight control on discretionary spending as well as the Company s focus of certain research and development resources on compliance initiatives. Recent new product introductions in the Orthopaedic Implants and MedSurg Equipment segments are more fully described under the caption *Product Sales*.

In addition to internally developed products, the Company invests in technologies developed by third parties that have the potential to expand the markets in which the Company operates. In 2009 the Company acquired Ascent Healthcare Solutions, Inc. (Ascent) the market leader in the reprocessing and remanufacturing of medical devices in the U.S. The acquisition of Ascent is expected to enhance the Company s presence in a variety of product offerings in its MedSurg Equipment segment and allow for cost savings to its customers. During 2009, the Company acquired certain additional companies that are expected to enhance the Company s product offerings to its customers within its Orthopaedic Implants and MedSurg Equipment business segments.

MARKETING

Domestic sales accounted for 64% of total revenues in 2009. Most of the Company s products are marketed directly to doctors, hospitals and other healthcare facilities through dedicated sales forces for each of its principal product lines to provide focus and a high level of expertise to each medical specialty served.

International sales accounted for 36% of total revenues in 2009. The Company s products are sold in more than 100 countries through local dealers and direct sales efforts. Stryker distributes its products through sales subsidiaries and branches with offices located in Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, China, Denmark, Egypt, Finland, France, Germany, Greece, Hong Kong, India, Italy, Japan, Korea, Malaysia, Mexico, The Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Russia, Serbia and Montenegro, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Ukraine, the United Arab Emirates and the United Kingdom. Stryker exports products to dealers and to customers in Africa, Bangladesh, the Balkans, China, the CIS (former Soviet Union), Cyprus, Czech Republic, Hungary, Iceland, Indonesia, Ireland, Israel, Latin America, the Middle East, Paraguay, the Philippines, Slovakia, Thailand, Turkey, Uruguay and Vietnam. Additional information regarding the Company s international and domestic operations and sales appears in Note 14 to the Consolidated Financial Statements in Item 8 of this report.

The Company s business is generally not seasonal in nature; however, the number of orthopaedic implant surgeries is lower during the summer months.

Table of Contents

COMPETITION

The Company is one of five leading competitors in the United States for orthopaedic reconstructive products. The four other leading competitors are DePuy Orthopaedics, Inc. (a subsidiary of Johnson & Johnson), Zimmer Holdings, Inc., Biomet, Inc., and Smith & Nephew plc. While competition abroad varies from area to area, the Company believes it is also a leading player in the international markets with these same companies as its principal competitors.

In the trauma implant segment, Stryker is one of five leaders competing principally with Synthes, Inc., Smith & Nephew Orthopaedics (a division of Smith & Nephew plc), Zimmer Holdings, Inc., and DePuy Orthopaedics, Inc.

In the spinal implant segment, the Company is one of five leaders, competing principally with Medtronic Sofamor Danek, Inc. (a subsidiary of Medtronic, Inc.), DePuy Spine, Inc. (a subsidiary of Johnson & Johnson), Synthes, Inc., and Zimmer Holdings, Inc.

In the craniomaxillofacial implant segment, Stryker is one of four leaders, competing principally with Synthes, Inc., Biomet Microfixation, LLC (a subsidiary of Biomet, Inc.), and KLS Martin L.P.

Several companies are engaged in the research and development of products for the repair of hard and soft tissues that, if approved, would compete with the Company s OP-1 product. Medtronic Sofamor Danek has received FDA approval for its recombinant bone morphogenetic protein (rhBMP-2) for certain spine, trauma and orthopaedic indications, including the treatment of acute, open fractures of the tibial shaft and spinal fusion surgeries. A number of companies currently provide various other therapies, including allografts, bone fillers and electrical stimulation devices for the treatment, repair or replacement of bone and joint tissue. The Company believes that its OP-1 product, which is approved for limited trauma and spine indications in certain markets and is currently in clinical trials for other indications, will ultimately compete with these products and with traditional therapies, such as autograft and allograft.

In the surgical equipment segment, Stryker is one of three leaders, competing principally with Medtronic, Inc., and Conmed Linvatec, Inc. (a subsidiary of CONMED Corporation). These companies are also competitors in the international segments, along with Aesculap-Werke AG (a division of B. Braun Melsungen AG), a large European manufacturer.

In the surgical navigation segment, Stryker is one of six principal competitors, including Medtronic Surgical Navigation Technologies (a division of Medtronic, Inc.), BrainLAB Inc. (a subsidiary of BrainLAB AG), AESCULAP AG & Co. KG (a division of B. Braun Melsungen AG), Radionics, Inc. (a subsidiary of Integra LifeSciences Corporation), and GE Medical Systems Navigation and Visualization, Inc. (a subsidiary of General Electric Company).

In the arthroscopy segment, the Company is one of four leaders, together with the principal competitors Smith & Nephew Endoscopy (a division of Smith & Nephew plc), Conmed Linvatec, Inc., and Arthrex, Inc. In the laparoscopic imaging products segment, the Company is one of three leaders, together with the principal competitors, Karl Storz GmbH & Co. (a German company) and Olympus Optical Co. Ltd. (a Japanese company).

The Company s primary competitor in the patient handling segment is Hill-Rom Holdings, Inc. In the specialty stretcher segment, the primary competitors are Hausted, Inc. (a subsidiary of STERIS Corporation), Hill-Rom Holdings, Inc., and Midmark Hospital Products Group (a subsidiary of Ohio Medical Instrument Company, Inc.). In the emergency medical services segment, Ferno-Washington, Inc. is the Company s principal competitor.

The principal factors that the Company believes differentiate it in the highly competitive market segments in which it operates and enable it to compete effectively are innovation, reliability, service and reputation. The

Table of Contents

Company believes that its competitive position in the future will depend to a large degree on its ability to develop new products and make improvements to existing products. While the Company does not consider patents a major factor in its overall competitive success, patents and trademarks are significant 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. Stryker seeks to obtain patent protection on its products whenever appropriate for protecting its competitive advantage. The Company currently owns approximately 1,145 United States patents and 1,470 international patents.

MANUFACTURING AND SOURCES OF SUPPLY

The Company s manufacturing processes consist primarily of precision machining, metal fabrication and assembly operations; the forging and investment casting of cobalt chrome; and the finishing of cobalt chrome and titanium. In addition, the Company is the sole manufacturer of its OP-1 product. Approximately 12% of the Company s cost of sales in 2009 represented finished products that were purchased complete from outside suppliers. The Company also purchases parts and components, such as forgings, castings, gears, bearings, casters and electrical components, and uses outside sources for certain finishing operations, such as plating, hardening and coating of machined components and sterilization of certain products. The principal raw materials used by the Company are stainless steel, aluminum, cobalt chrome and titanium alloys. In all, purchased parts and components from outside sources were approximately 41% of the total cost of sales in 2009.

While the Company relies on single sources for certain purchased materials and services, it believes alternate sources are available if needed. The Company has not experienced any significant difficulty in the past in obtaining the materials necessary to meet its production schedules.

Substantially all products manufactured by the Company are stocked in inventory, while certain products manufactured within the Company s MedSurg Equipment segment are assembled to order.

REGULATION AND PRODUCT QUALITY

The Medical Device Amendments of 1976 to the federal Food, Drug and Cosmetic Act and the Safe Medical Devices Act of 1990, together with regulations issued or proposed thereunder, provide for regulation by the FDA of the design, manufacture and marketing of medical devices, including most of the Company s products.

The FDA s Quality System regulations set forth standards for the Company s product design and manufacturing processes, require the maintenance of certain records and provide for inspections of the Company s 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 the Company s products.

In 2009 the Company received a warning letter from the FDA related to compliance issues for one of its CMF implant products that was previously sold through its CMF distribution facility in Portage, Michigan. In 2008 the Company received a warning letter from the FDA related to quality systems and compliance issues at its OP-1 implant manufacturing facility in Hopkinton, Massachusetts. In 2007 the Company received two warning letters from the FDA regarding compliance with certain quality system specifications at its reconstructive implant manufacturing facilities: one letter for its facility in Cork, Ireland and another for its facility in Mahwah, New Jersey. In October 2009, the FDA informed the Company that the warning letter related to its OP-1 implant manufacturing facility had been resolved following a productive reinspection earlier in 2009. The Company takes these matters very seriously and continues to fully cooperate with the FDA to address their observations at the other facilities.

Most of the Company s new products fall into FDA classifications that require notification of and review by the FDA before marketing, submitted as a 510(k). The Company s FlexiCore and CerviCore artificial disc products and OP-1 products require extensive clinical testing, consisting of safety and efficacy studies, followed by PMA applications for specific surgical indications.

Table of Contents

Stryker also is subject to the laws that govern the manufacture and distribution of medical devices of each country in which the Company manufactures or sells products. The member states of the European Union (EU) have adopted the European Medical Device Directives, which create 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. Stryker has authorization to apply the CE Marking to substantially all of its products. The Company s OP-1 product has been considered a drug under the regulations for Europe, Australia and Japan.

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 the Company does business. It is not possible to predict at this time the long-term impact of such cost-containment measures on the Company s future business.

EMPLOYEES

At December 31, 2009, the Company had 18,582 employees worldwide. Certain international employees are covered by collective bargaining agreements that are updated annually. The Company believes that its employee relations are satisfactory.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

ITEM 1A. RISK FACTORS.

The following information contains specific risks that could potentially impact the Company s business, financial condition or operating results. The Company may be subject to additional risks that are not currently known to the Company or those which the Company deems immaterial that may also impact its business operations.

The Company s inability to maintain adequate working relationships with healthcare professionals could have a negative impact on the Company s future operating results.

The Company maintains close working relationships with respected physicians and medical personnel in hospitals and universities who assist in product research and development. The Company continues to place emphasis on the development of proprietary products and product improvements to complement and expand its existing product lines. If the Company is unable to maintain these good relationships, its ability to market and sell new and improved products could decrease and future operating results could be unfavorably affected.

The Company s inability to continue to hire and retain key employees could have a negative impact on the Company s future operating results.

The talent and drive of the Company s employees are key factors in the success of its business. The Company s sales, technical and other key personnel play an integral role in the development, marketing and selling of new and existing products. If the Company is unable to recruit, hire, develop and retain a talented, competitive work force, it may not be able to meet its strategic business objectives.

Table of Contents

Stricter pricing guidelines for the medical technology industry could have a negative impact on the Company s 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 the Company does business. The Company could experience a negative impact on its operating results due to increased pricing pressure in the United States, Japan and certain other markets. Governments, hospitals and other third party payers could reduce the amount of approved reimbursements for the Company s products. Reductions in reimbursement levels or coverage or other cost-containment measures could unfavorably affect the Company s future operating results.

The Company s operating results could be negatively impacted by changes in its excess and obsolete inventory reserves.

The Company maintains reserves for excess and obsolete inventory resulting from the potential inability to sell its products at prices in excess of current carrying costs. The markets in which the Company operates are highly competitive, and new products and surgical procedures are introduced on an ongoing basis. Such marketplace changes may cause some of the Company s products to become obsolete. The Company makes estimates regarding the future recoverability of the costs of these products and records a provision for excess and obsolete inventories 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.

The Company s operating results could be negatively impacted if it is unable to capitalize on research and development spending.

The Company has spent a significant amount of time and resources on research and development projects in order to develop and validate new and innovative products. The Company believes these projects will result in the commercialization of new products and will create additional future sales. However, factors including regulatory delays, safety concerns or patent disputes could delay the introduction or marketing of new products. Additionally, unanticipated issues may arise in connection with current and future clinical studies that could delay or terminate a product s development prior to regulatory approval. The Company may experience an unfavorable impact on its operating results if it is unable to capitalize on those efforts by attaining the proper FDA approval or to successfully market new products.

The Company s operating results could be negatively impacted by future changes in the allocation of income to each of the income tax jurisdictions in which the Company operates.

The Company operates in multiple income tax jurisdictions both inside and outside the United States. Income tax authorities in these jurisdictions regularly perform audits of the Company s income tax filings. Accordingly, management must determine the appropriate allocation of income to each of these jurisdictions based on current interpretations of complex income tax regulations. Income tax audits associated with the allocation of this income and other complex issues, including inventory transfer pricing and cost sharing and product royalty 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 the Company s income tax expense and net earnings in future periods.

Table of Contents

The Company s operating results could be negatively impacted by future product liability claims, unfavorable court decisions, regulatory compliance or legal settlements.

The Company is a defendant in various proceedings, legal actions and claims arising in the normal course of business, including product liability and other matters. In addition, the Company may incur significant legal expenses regardless of whether it is found to be liable. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. To partially mitigate losses arising from unfavorable outcomes in such matters, the Company purchases third-party insurance coverage subject to certain deductibles and loss limitations. While the Company believes its current insurance coverage is adequate to mitigate losses arising from such matters, its future operating results may be unfavorably impacted by any settlement payments or losses beyond the amounts of insurance carried. In addition, such product liability matters may negatively impact the Company s ability to obtain cost-effective third-party insurance coverage in future periods.

Substantially all of the Company s products are subject to regulation by the FDA and other governmental authorities both inside and outside of the United States. If the Company were to fail to comply with the applicable regulatory requirements, it may be subject to a range of sanctions including, but not limited to, warning letters, monetary fines, product recalls and the suspension of product manufacturing. Such sanctions, if implemented, could have a material, unfavorable impact on the Company s future operating results.

The Company s operating results could be negatively impacted by economic, political or other developments in countries in which the Company does business.

The Company distributes its products throughout the world. As a result, the Company s future operating results could be negatively impacted by unstable economic, political and social conditions, including but not limited to fluctuations in foreign currency exchange rates, political instability or changes in the interpretation or creation of laws and regulations, including tax laws and regulations, in each of the countries where the Company conducts business, including the United States.

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS.
Not applicable.

ITEM 2. PROPERTIES.
The Company has the following properties:

Location	Segment	Use	Square Feet	Owned/ Leased
Mahwah, New Jersey	Orthopaedic Implants	Manufacturing of reconstructive implants	531,000	Owned
Limerick, Ireland	Orthopaedic Implants	Manufacturing of reconstructive implants and OP-1	130,000	Owned
Herouville, France	Orthopaedic Implants	Manufacturing of reconstructive implants	130,000	Owned
Kiel, Germany	Orthopaedic Implants	Manufacturing of trauma implants	147,000	Owned
Selzach, Switzerland	Orthopaedic Implants	Manufacturing of trauma implants	78,000	Owned
Neuchâtel, Switzerland	Orthopaedic Implants	Manufacturing of spinal implants	88,000	Owned
Bordeaux, France	Orthopaedic Implants	Manufacturing of spinal implants	79,000	Owned
Bordeaux, France	Orthopaedic Implants	Manufacturing of spinal implants	35,000	Leased
Carrigtwohill, Ireland	Orthopaedic Implants and MedSurg Equipment	Manufacturing of reconstructive implants and surgical equipment	154,000	Owned
Freiburg, Germany	Orthopaedic Implants and MedSurg Equipment	Manufacturing of craniomaxillofacial implants and surgical navigation systems	106,000	Owned
Stetten, Germany	Orthopaedic Implants	Manufacturing of craniomaxillofacial implants	33,000	Owned
West Lebanon, New Hampshire	Orthopaedic Implants	Manufacturing of OP-1	140,000	Owned
Hopkinton, Massachusetts	Orthopaedic Implants	Manufacturing of OP-1	69,000	Leased
Portage, Michigan	MedSurg Equipment	Manufacturing of surgical equipment and patient-handling and emergency medical equipment	1,034,000	Owned
Arroyo, Puerto Rico	MedSurg Equipment	Manufacturing of surgical equipment and endoscopic systems	220,000	Leased
San Jose, California	MedSurg Equipment	Manufacturing of endoscopic systems	165,000	Leased
Flower Mound, Texas	MedSurg Equipment	Manufacturing of communications systems	127,000	Leased
L Islet, Canada	MedSurg Equipment	Manufacturing of patient-handling equipment	132,000	Owned
Lakeland, Florida	MedSurg Equipment	Reprocessing and remanufacturing of medical devices	112,000	Leased
Phoenix, Arizona	MedSurg Equipment	Reprocessing and remanufacturing of medical devices	51,000	Leased
Suzhou, China	Orthopaedic Implants	Manufacturing of reconstructive, trauma and spinal implants	155,000	Owned
Kalamazoo, Michigan	Other	Corporate headquarters	75,000	Owned

Table of Contents

In addition to the above, the Company maintains administrative and sales offices and warehousing and distribution facilities in various countries, including the United States, Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, China, Denmark, Egypt, Finland, France, Germany, Greece, Hong Kong, India, Israel, Italy, Japan, Korea, Malaysia, Mexico, The Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Russia, Serbia and Montenegro, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Ukraine, the United Arab Emirates and the United Kingdom.

The Company believes that its properties are suitable and adequate for the manufacture and distribution of the Company s products.

ITEM 3. LEGAL PROCEEDINGS.

The Company is 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 16 to the Consolidated Financial Statements in Item 8 of this report. 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 relief, which could result in the payment of significant claims and settlements. In legal matters for which management has sufficient information to reasonably estimate the Company s 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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

PART II

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

The Company s Common Stock is traded on the New York Stock Exchange under the symbol SYK. Quarterly stock prices appear under the caption Summary of Quarterly Data (Unaudited) in Item 8 of this report and dividend information for the years ended December 31, 2009 and 2008 appears under the caption Selected Financial Data in Item 6 below. The Company s Board of Directors considers a cash dividend at each of its quarterly meetings.

In the fourth quarter of 2009, the Company issued 220 shares of Common Stock as performance incentive awards to certain employees. The shares were not registered under the Securities Act of 1933 based on the conclusion that the awards would not be events of sale within the meaning of Section 2(a)(3) of the Act.

On January 31, 2010, there were 4,732 shareholders of record of the Company s Common Stock.

Table of Contents

PERFORMANCE GRAPH (UNAUDITED)

Set forth below is a graph comparing the total returns (including reinvestments of dividends) of the Company, 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 invested on December 31, 2004 in the Company s Common Stock and each of the indices.

	2004	2005	2006	2007	2008	2009
Stryker Corporation	100	92.31	114.96	156.55	84.54	107.12
S&P 500 Index	100	104.91	121.48	128.16	80.74	102.11
S&P 500 Health Care Index	100	106.46	114.48	122.66	94.68	113.33

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA.

The financial information for each of the five years in the period ended December 31, 2009 is set forth below (dollars in millions, except per share amounts):

	2009	2008	2007	2006	2005
Net sales	$ 6,723.1	$ 6,718.2	$ 6,000.5	$ 5,147.2	$ 4,608.9
Cost of sales	2,183.7	2,131.4	1,865.2	1,616.6	1,489.2
Gross profit	4,539.4	4,586.8	4,135.3	3,530.6	3,119.7
Research, development and engineering expenses	336.2	367.8	375.3	324.6	284.7
Selling, general and administrative expenses	2,506.3	2,625.1	2,391.5	2,047.0	1,839.4
Intangibles amortization	35.5	40.0	41.4	42.7	47.6
Other (a)	67.0	34.9	19.8	52.7	15.9
	2,945.0	3,067.8	2,828.0	2,467.0	2,187.6
Operating income	1,594.4	1,519.0	1,307.3	1,063.6	932.1
Other income (expense)	29.5	61.2	62.8	30.2	4.9
Earnings from continuing operations before income taxes	1,623.9	1,580.2	1,370.1	1,093.8	937.0
Income taxes	516.5	432.4	383.4	322.4	304.5
Net earnings from continuing operations	1,107.4	1,147.8	986.7	771.4	632.5
Net earnings and gain on sale of discontinued operations			30.7	6.3	11.1
Net earnings	$ 1,107.4	$ 1,147.8	$ 1,017.4	$ 777.7	$ 643.6
Net earnings from continuing operations per share of common stock:					
Basic	$ 2.79	$ 2.81	$ 2.41	$ 1.90	$ 1.57
Diluted	$ 2.77	$ 2.78	$ 2.37	$ 1.87	$ 1.54
Net earnings per share of common stock:					
Basic	$ 2.79	$ 2.81	$ 2.48	$ 1.91	$ 1.59
Diluted	$ 2.77	$ 2.78	$ 2.44	$ 1.89	$ 1.57
Dividends declared per share of common stock (See Note 10)	$ 0.25	$ 0.40	$ 0.33	$ 0.22	$ 0.11
Average number of shares outstanding in millions:					
Basic	397.4	408.1	409.7	406.5	403.7
Diluted	399.4	413.6	417.2	411.8	410.8

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

Table of Contents

FINANCIAL AND STATISTICAL DATA

	2009	2008	2007	2006	2005
Cash and marketable securities	2,954.8	2,195.6	2,410.8	1,414.8	1,056.5
Working capital	4,410.2	3,517.2	3,571.9	2,182.8	1,621.3
Current ratio	4.1	3.4	3.7	2.6	2.3
Property, plant and equipment net	947.6	963.8	991.6	914.9	796.3
Capital expenditures	131.3	155.2	187.7	209.4	261.8
Depreciation and amortization	385.3	387.6	366.6	324.1	282.7
Total assets	9,071.3	7,603.3	7,354.0	5,873.8	4,992.5
Long-term debt, including current maturities	18.0	20.5	16.8	14.8	231.6
Shareholders equity	6,595.1	5,406.7	5,378.5	4,191.0	3,300.2
Return on average equity	18.5%	21.3%	21.3%	20.8%	21.1%
Net cash provided by operating activities	1,460.7	1,175.9	1,028.3	867.3	833.4
Number of shareholders of record	4,607	4,500	4,373	4,091	3,979
Number of employees	18,582	17,594	16,026	18,806	17,265

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

Throughout this discussion, references are made to the following financial measures: constant currency, adjusted net earnings, adjusted basic net earnings per share, adjusted diluted net earnings per share, adjusted net earnings from continuing operations, adjusted basic net earnings per share from continuing operations and adjusted diluted net earnings per share from continuing operations. These financial measures are an alternative representation of Stryker Corporation s (the Company or Stryker) past and potential future operational performance and do not replace the presentation of the Company s reported financial results under U.S. generally accepted accounting principles (GAAP). The Company has provided these supplemental non-GAAP financial measures because they provide meaningful information regarding the Company s results on a consistent and comparable basis for the periods presented. Management uses these non-GAAP financial measures for reviewing the operating results of its business segments, for analyzing potential future business trends in connection with its budget process and bases certain annual bonus plans on these non-GAAP financial measures. In order to measure the Company s sales performance on a constant currency basis, it is necessary to remove the impact of changes in foreign currency exchange rates which affects the comparability and trend of sales. Constant currency results are calculated by translating current year results at prior year average foreign currency exchange rates. In order to measure earnings performance on a consistent and comparable basis, the Company excludes the patent litigation gain and the income tax expenses associated with the repatriation of foreign earnings recorded in 2009, the restructuring charges recorded in 2009 and 2008, and the intangible asset impairment charge recorded in 2007, each of which affects the comparability of operating results and the trend of earnings. Additional details regarding the nature, determination and financial statement impact of these items are included in *Results of Operations*. In addition, the Company believes investors will utilize this information to evaluate period-to-period results on a comparable basis and to better understand potential future operating results. The Company encourages investors and other users of these financial statements to review its Consolidated Financial Statements and other publicly filed reports in their entirety and not to rely solely on any single financial measure.

Executive Level Overview

Stryker is one of the world s leading medical technology companies with the most broadly based range of products in orthopaedics and a significant presence in other medical specialties. Stryker works with respected medical professionals to help people lead more active and more satisfying lives. The Company s products include implants used in joint replacement, trauma and spinal surgeries; surgical equipment and surgical navigation systems; endoscopic and communications systems; patient handling and emergency medical equipment as well as other medical device products used in a variety of medical specialties.

Table of Contents

Domestic sales accounted for 64% of total revenues in 2009. Most of the Company s products are marketed directly to doctors, hospitals and other healthcare facilities by approximately 4,100 sales and marketing personnel in the United States. Stryker primarily maintains separate and dedicated sales forces for each of its principal product lines to provide focus and a high level of expertise to each medical specialty served.

International sales accounted for 36% of total revenues in 2009. The Company s products are sold in more than 100 countries through Company-owned sales subsidiaries and branches as well as third-party dealers and distributors.

The Company s business is generally not seasonal in nature; however, the number of orthopaedic implant surgeries is lower during the summer months.

In the fourth quarter of 2009, the Company acquired Ascent Healthcare Solutions, Inc. (Ascent), the market leader in the reprocessing and remanufacturing of medical devices in the United States, for $525.0 million in an all cash transaction. In addition, the Company settled an outstanding patent infringement lawsuit and received $62.5 million pursuant to a confidential settlement. The Company also repatriated $787.0 million of foreign earnings to the United States which was used in part to fund the acquisition of Ascent. In the third quarter of 2009, the Company decided to terminate certain third-party agreements at the Company s EMEA Division, to simplify the organization structure at its Biotech, EMEA, Japan and Canada divisions and to discontinue selling certain products within its Orthopaedic Implants and MedSurg business segments. Additional details, including the financial statement impact of these transactions, are included in *Results of Operations* and *Liquidity and Capital Resources*.

In 2009 a federal grand jury in the District of Massachusetts returned an indictment charging Stryker Biotech LLC and certain current and former employees of Stryker Biotech with wire fraud, conspiracy to defraud the U.S. Food and Drug Administration (FDA), distribution of a misbranded device and false statements to the FDA. The Company still hopes to be able to reach a fair and just resolution of this matter. Conviction of these charges could result in significant monetary fines and Stryker Biotech s exclusion from participating in federal and state healthcare programs, which could have a material affect on Stryker Biotech s business. However, the ultimate resolution of these matters is not reasonably estimatable at this time. The Company understands that certain former Stryker Biotech employees have pled guilty to charges in connection with this matter. In 2009 the FDA Orthopaedic and Rehabilitation Devices Advisory Panel voted not to recommend that the Company receive marketing approval for its OP-1 Putty. The Company is reviewing its strategic alternatives for OP-1, which could be impacted by the ultimate resolution of the indictment.

In the fourth quarter of 2008, the Company decided to simplify the structure of its Japanese distribution business and to substantially reduce development efforts associated with the product technologies acquired from Sightline Technologies Ltd. (Sightline) in 2006. Unanticipated issues arose that delayed the regulatory approval and commercialization efforts of new products associated with the product technologies acquired. Additional details, including the financial statement impact resulting from those decisions, are included in *Results of Operations.*

Table of Contents

Results of Operations

The table below outlines the components of net earnings from continuing operations from the Consolidated Statements of Earnings as a percentage of net sales and the year-to-year percentage change in dollar amounts:

	Percentage of Net Sales			Percentage Change	
	2009	2008	2007	2009/2008	2008/2007
Net sales	100.0%	100.0%	100.0%	0%	12%
Cost of sales	32.5	31.7	31.1	2	14
Gross profit	67.5	68.3	68.9	(1)	11
Research, development and engineering expenses	5.0	5.5	6.3	(9)	(2)
Selling, general and administrative expenses	37.3	39.1	39.9	(5)	10
Intangibles amortization	0.5	0.6	0.7	(11)	(3)
Restructuring charges	1.0	0.5		92	
Intangible asset impairment			0.3		(100)
Operating income	23.7	22.6	21.8	5	16
Other income (expense)	0.4	0.9	1.0	(52)	(3)
Earnings from continuing operations before income taxes	24.2	23.5	22.8	3	15
Income taxes	7.7	6.4	6.4	19	13
Net earnings from continuing operations	16.5%	17.1%	16.4%	(4)	16

The Company segregates its operations into two reportable business segments: Orthopaedic Implants and MedSurg Equipment. The Orthopaedic Implants segment includes orthopaedic reconstructive (hip and knee), trauma, craniomaxillofacial and spinal implant systems and other related products. The MedSurg Equipment segment includes surgical equipment and surgical navigation systems; endoscopic and communications systems; as well as patient handling and emergency medical equipment.

The table below sets forth domestic/international and product line sales information (in millions):

	Net Sales			Percentage Change			
				2009/2008		2008/2007	
	2009	2008	2007	Reported	Constant Currency	Reported	Constant Currency
Domestic/international sales:							
Domestic	$ 4,317.4	$ 4,282.2	$ 3,850.3	1%	1%	11%	11%
International	2,405.7	2,436.0	2,150.2	(1)	3	13	9
Total net sales	$ 6,723.1	$ 6,718.2	$ 6,000.5	0	2	12	11
Product line sales:							
Orthopaedic Implants	$ 4,119.7	$ 3,967.5	$ 3,587.3	4	6	11	9
MedSurg Equipment	2,603.4	2,750.7	2,413.2	(5)	(4)	14	13
Total net sales	$ 6,723.1	$ 6,718.2	$ 6,000.5	0	2	12	11

22

Table of Contents

The tables below set forth additional geographical sales growth information for significant products within the Company s Orthopaedic Implants and MedSurg Equipment segments on both a reported basis and a constant currency basis:

	Year Ended December 31, 2009 Percentage Change				
	Domestic	International		Total	
	Reported	Reported	Constant Currency	Reported	Constant Currency
Orthopaedic Implants sales:					
Hips	6	(2)	4	2	5
Knees	10	(5)	0	4	6
Trauma	10	2	4	5	6
Spine	11	9	12	10	11
Craniomaxillofacial	13	(2)	2	8	9
Total Orthopaedic Implants	7	(1)	3	4	6
MedSurg Equipment sales:					
Surgical equipment and surgical navigation systems	2	(2)	3	1	2
Endoscopic and communications systems	(5)	6	11	(2)	(1)
Patient handling and emergency medical equipment	(23)	(17)	(12)	(22)	(20)
Total MedSurg Equipment	(7)	(2)	3	(5)	(4)

	Year Ended December 31, 2008 Percentage Change				
	Domestic	International		Total	
	Reported	Reported	Constant Currency	Reported	Constant Currency
Orthopaedic Implants sales:					
Hips	2	3	0	3	1
Knees	15	13	10	14	13
Trauma	20	17	10	18	14
Spine	22	14	8	19	18
Craniomaxillofacial	21	6	3	16	15
Total Orthopaedic Implants	11	10	6	11	9
MedSurg Equipment sales:					
Surgical equipment and surgical navigation systems	16	18	14	17	15
Endoscopic, communications and digital imaging systems	6	18	15	9	8
Patient handling and emergency medical equipment	13	43	41	18	17
Total MedSurg Equipment	11	22	18	14	13

2009 Compared with 2008

The Company s net sales increased to $6,723.1 million in 2009 from $6,718.2 million in 2008. Net sales grew by 2% as a result of increased unit volume and changes in product mix partially offset by unfavorable changes in foreign currency exchange rates.

The Company s domestic sales were $4,317.4 million for 2009, representing an increase of 1%, as a result of higher shipments of Orthopaedic Implants partially offset by lower shipments of MedSurg Equipment. International sales were $2,405.7 million for 2009, representing a decrease of 1%. The impact of foreign currency comparisons to the dollar value of international sales was unfavorable by $110.1 million for 2009. On a constant currency basis, international sales increased 3% in 2009 as a result of higher shipments of Orthopaedic Implants and MedSurg Equipment.

Table of Contents

Worldwide sales of Orthopaedic Implants were $4,119.7 million for 2009, representing an increase of 4%. On a constant currency basis, sales of Orthopaedic Implants increased 6% in 2009 as a result of higher shipments of hips, knees, trauma, craniomaxillofacial and spinal implant systems.

Hip Implant Systems: Sales of hip implant systems increased 2% in 2009 (5% on a constant currency basis). In the United States, sales growth was driven by Trident hip products, X3 Polyethylene hip products, Accolade cementless hip products and Restoration Modular Hip System revision hip products. Sales growth in several hip systems, including X3 Polyethylene and Accolade cementless hip products in Europe, Canada and the Latin America and Pacific regions and Trident in Japan, also contributed to the Company s constant currency sales growth in 2009.

Knee Implant Systems: Sales of knee implant systems increased 4% in 2009 (6% on a constant currency basis) due to strong sales growth in the Triathlon Knee System in the United States, Europe, Japan, Canada and the Pacific region and solid sales growth in the Scorpio Knee System in the Latin America region.

Trauma Implant Systems: Sales of trauma implant systems increased 5% in 2009 (6% on a constant currency basis) as a result of sales growth in the Gamma 3 Hip Fracture System and the SPS Calcaneal Foot Plating System in the United States, Europe, Canada, Latin America and Pacific regions as well as sales growth in the Company s VariAx Distal Radius System in Europe, Canada and the Latin America region. Strong sales growth in the HydroSet injectable bone substitute product in the United States, Canada and the Pacific region also contributed to the Company s constant currency sales growth in 2009.

Spinal Implant Systems: Sales of spinal implant systems increased 10% in 2009 (11% on a constant currency basis). The increase was driven by strong worldwide sales growth of thoracolumbar implant systems, interbody devices and cervical implants in the United States, Europe and the Latin America and Pacific regions.

Craniomaxillofacial Implant Systems: Sales of craniomaxillofacial (CMF) implant systems increased 8% in 2009 (9% on a constant currency basis) primarily due to strong sales growth of products for neurological indications in the United States, Japan, Canada and the Latin America and Pacific regions. Sales growth of the HydroSet injectable bone substitute products in the United States, Europe Canada and the Pacific region also contributed to the Company s constant currency sales growth.

Worldwide sales of MedSurg Equipment were $2,603.4 million for 2009, representing a decrease of 5%. The general economic slowdown in the United States resulted in a significant and rapid contraction in hospital capital budgets that depressed demand for certain MedSurg Equipment products. The severe weakening of the economy caused the Company s hospital customers to reduce capital purchases, which generate about 60% of sales within the MedSurg Equipment segment, to a degree not previously experienced in prior recessionary periods. On a constant currency basis, sales of MedSurg Equipment decreased 4% in 2009 as higher shipments of surgical equipment and surgical navigation systems were offset by lower shipments of endoscopic and communication systems as well as patient handling and emergency medical equipment.

Surgical Equipment and Surgical Navigation Systems: Sales of surgical equipment and surgical navigation systems increased 1% in 2009 (2% on a constant currency basis) due to worldwide sales growth in operating room equipment as well as sales growth in powered surgical products in the United States, Europe, Japan and the Latin America region and sales growth in interventional pain products in the United States, Japan and the Pacific region.

Endoscopic and Communications Systems: Sales of endoscopic and communications systems decreased 2% in 2009 (1% decrease on a constant currency basis) due to lower sales of medical video imaging equipment products and image portal products in the United States partially offset by worldwide sales growth in arthroscopy and general surgery products as well as sales growth in communications products in Japan and the Latin America and Pacific regions and medical video imaging equipment in Europe, Japan and the Latin America and Pacific regions.

Table of Contents

Patient Handling and Emergency Medical Equipment: Sales of patient handling and emergency medical equipment decreased 22% in 2009 (20% decrease on a constant currency basis) due to lower worldwide sales of hospital bed products and stretchers in the United States, Europe, Canada and the Pacific and Latin America regions, partially offset by sales growth in stretchers in Japan and emergency medical equipment in the United States.

Cost of sales represented 32.5% of sales in 2009 compared with 31.7% in 2008. The increase in the cost of sales percentage is primarily due to increased spending for compliance initiatives, higher excess and obsolete inventory costs associated with the Orthopaedic Implants businesses as well as higher unabsorbed costs due to lower production levels.

Research, development and engineering expenses represented 5.0% of sales in 2009 compared with 5.5% in 2008. The spending level in 2009 decreased by 9% to $336.2 million due to tight control on discretionary spending as well as the Company s continued focus of certain research and development resources on compliance initiatives. New product introductions in 2009 for the Orthopaedic Implants segment included the Rejuvenate Modular Primary Hip system; the VariAx elbow plating system and the Xia Uniplanar Titanium Spinal System. Within the MedSurg equipment segment, new product introductions in 2009 included the 1288 HD Camera, the Impression non-powered support surface, the Flyte Suit personal protection system and the RemB micro electric system.

Selling, general and administrative expenses decreased 5% in 2009 and represented 37.3% of sales compared with 39.1% in 2008. In 2009 the Company settled an outstanding patent infringement lawsuit and received $62.5 million pursuant to a confidential settlement agreement. This gain represented a reduction to selling, general and administrative expenses. The remaining decrease in selling, general and administrative expenses as a percent of sales in 2009 is due to tight control on discretionary spending that more than offset increased legal settlement costs, net of insurance recoveries, recorded for certain product liability claims.

In 2009 the Company recorded $67.0 million ($48.4 million net of income taxes) in restructuring charges related to decisions to terminate certain third-party agent agreements at the Company s EMEA Division, to simplify the organization structure at its Biotech, EMEA, Japan and Canada divisions and to discontinue selling certain products within its Orthopaedic Implants and MedSurg Equipment segments. In 2008 the Company recorded $34.9 million ($21.7 million net of income taxes) in restructuring charges related to the decisions to simplify the structure of the Company s Japanese distribution business and to substantially reduce development efforts associated with Sightline product technologies acquired in 2006.

Interest and marketable securities income, which is included in other income (expense), decreased to $53.9 million in 2009 from $97.7 million in 2008 primarily as a result of lower average yields on the Company s investments.

The Company s effective income tax rate on earnings for the year ended December 31, 2009 was 31.8% compared to an effective income tax rate for the year ended December 31, 2008 of 27.4%. The effective income tax rate for the year ended December 31, 2009 reflects the impact of restructuring charges of $48.4 million (net of $18.6 million income tax benefits), the patent litigation gain of $42.9 million (net of $19.6 million income tax expenses) and the impact of the $67.1 million income tax expenses associated with the repatriation of foreign earnings of $787.0 million. The effective income tax rate for the year ended December 31, 2008 reflects the impact of the restructuring charges of $21.7 million (net of $13.2 million income tax benefits). In addition to these factors, the Company s reported effective income tax rates for the years ended December 31, 2009 and 2008 are lower than the U.S. statutory income tax rate primarily as a result of manufacturing in lower income tax jurisdictions.

Net earnings decreased 4% in 2009 to $1,107.4 million from $1,147.8 million in 2008. Basic net earnings per share decreased 1% in 2009 to $2.79 from $2.81 in 2008, and diluted net earnings per share decreased to $2.77 in 2009 from $2.78 in 2008.

Table of Contents

Excluding the impact of the patent litigation gain, the income tax charge associated with the repatriation of foreign earnings and the restructuring charges recorded in 2009 and 2008, adjusted net earnings increased 1% in 2009 to $1,180.0 million from $1,169.5 million in 2008. Adjusted basic net earnings per share increased 4% in 2009 to $2.97 from $2.87 in 2008 and adjusted diluted net earnings per share increased 4% in 2009 to $2.95 from $2.83 in 2008.

The reconciliations of these non-GAAP financial measures are as follows (in millions, except per share amounts):

	2009	2008	Percentage Change
Reported net earnings	$ 1,107.4	$ 1,147.8	(4)
Restructuring charges	48.4	21.7	123
Patent litigation gain	(42.9)		
Income taxes on repatriation of foreign earnings	67.1		
Adjusted net earnings	$ 1,180.0	$ 1,169.5	1
Basic net earnings per share of common stock:			
Reported basic net earnings per share	$ 2.79	$ 2.81	(1)
Restructuring charges	$ 0.12	$ 0.05	140
Patent litigation gain	$ (0.11)		
Income taxes on repatriation of foreign earnings	$ 0.17		
Adjusted basic net earnings per share	$ 2.97	$ 2.87	4
Weighted-average basic shares outstanding	397.4	408.1	
Diluted net earnings per share of common stock:			
Reported diluted net earnings per share	$ 2.77	$ 2.78	(0)
Restructuring charges	$ 0.12	$ 0.05	140
Patent litigation gain	$ (0.11)		
Income taxes on repatriation of foreign earnings	$ 0.17		
Adjusted diluted net earnings per share	$ 2.95	$ 2.83	4
Weighted-average diluted shares outstanding	399.4	413.6	

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

2008 Compared with 2007

The Company s net sales increased 12% in 2008 to $6,718.2 million from $6,000.5 million in 2007. Net sales grew by 11% as a result of increased unit volume and changes in product mix and by 1% due to favorable changes in foreign currency exchange rates.

The Company s domestic sales were $4,282.2 million for 2008, representing an increase of 11%, as a result of higher shipments of Orthopaedic Implants and MedSurg Equipment. International sales were $2,436.0 million for 2008, representing an increase of 13%. The impact of foreign currency comparisons to the dollar value of international sales was favorable by $84.7 million for 2008. On a constant currency basis, international sales increased 9% in 2008 as a result of higher shipments of Orthopaedic Implants and MedSurg Equipment.

Worldwide sales of Orthopaedic Implants were $3,967.5 million for 2008, representing an increase of 11%. On a constant currency basis, sales of Orthopaedic Implants increased 9% in 2008 as a result of higher shipments of reconstructive, trauma, spinal and craniomaxillofacial implant systems and bone cement.

Table of Contents

Hip Implant Systems: Sales of hip implant systems increased 3% in 2008 (1% on a constant currency basis). In the United States, sales growth was driven by increased sales of the Cormet Hip Resurfacing product and sales growth in X3 Polyethylene and Accolade cementless hip products, partially offset by declines in other hip systems. Sales growth in several hip systems, including Accolade, X3 Polyethylene and ABG II in Europe and Secur-Fit in Japan and the Pacific region, also contributed to the Company s constant currency sales growth in 2008.

Knee Implant Systems: Sales of knee implant systems increased 14% in 2008 (13% on a constant currency basis) due to strong sales growth in the Triathlon Knee System in the United States, Europe, Canada and the Pacific region and solid sales growth in the Scorpio Knee System in Japan and the Latin America region.

Trauma Implant Systems: Sales of trauma implant systems increased 18% in 2008 (14% on a constant currency basis) as a result of strong worldwide sales growth in the Gamma3 Hip Fracture System and the SPS Calcaneal Foot Plating System and strong sales growth in the Company s T2 Nailing System in the United States, Canada and the Pacific region. Strong sales growth in the HydroSet injectable bone substitute product in the United States and the Pacific region also contributed to the Company s constant currency sales growth in 2008.

Spinal Implant Systems: Sales of spinal implant systems increased 19% in 2008 (18% on a constant currency basis). The increase was driven by strong worldwide sales growth of thoracolumbar implant systems, interbody devices and cervical implants.

Craniomaxillofacial Implant Systems: Sales of craniomaxillofacial implant systems increased 16% in 2008 (15% on a constant currency basis) primarily due to strong sales growth of products for neurological indications and craniomaxillofacial implants and the HydroSet injectable bone substitute product in the United States and the Pacific region.

Worldwide sales of MedSurg Equipment were $2,750.7 million for 2008, representing an increase of 14%. On a constant currency basis, sales of MedSurg Equipment increased 13% in 2008 as a result of higher shipments of surgical equipment and surgical navigation systems; endoscopic, communications and digital imaging systems; as well as patient handling and emergency medical equipment.

Surgical Equipment and Surgical Navigation Systems: Sales of surgical equipment and surgical navigation systems increased 17% in 2008 (15% on a constant currency basis) due to strong worldwide sales growth in powered surgical and operating room equipment as well as solid sales growth in interventional pain products in the United States and the Pacific region.

Endoscopic and Communications: Sales of endoscopic and communications systems increased 9% in 2008 (8% on a constant currency basis) as a result of strong worldwide sales growth in arthroscopy and general surgery as well as strong international sales growth of medical video imaging equipment, led by the 1188 HD camera and complimentary products, partially offset by lower sales of medical video imaging equipment in the United States. Strong sales growth in communication products, led by the SwitchPoint Infinity 2, in the United States and Canada also contributed to the Company s constant currency sales growth.

Patient Handling and Emergency Medical Equipment: Sales of patient handling and emergency medical equipment increased 18% in 2008 (17% on a constant currency basis) due to strong sales growth of hospital bed products in the United States and the Latin America region and stretchers and emergency medical equipment in the United States and Europe.

Cost of sales represented 31.7% of sales in 2008 compared with 31.1% in 2007. The increase in the cost of sales percentage is primarily due to increased compliance initiative spending and higher commodity and freight costs.

Table of Contents

Research, development and engineering expenses represented 5.5% of sales in 2008 compared with 6.3% in 2007. As anticipated, the spending level in 2008 decreased by 2% to $367.8 million as the Company s focus of certain research and development resources on compliance initiatives, which has slowed down some research and development projects and reduced outside contractor spending on certain projects. New product introductions in 2008 for the Orthopaedic Implants segment included the Tritanium Primary Hip System; the Triathlon TS Revision Knee System; the Triathlon Partial Knee Resurfacing System; the Asnis Screw System; the VariAx Hand and Foot Trauma Systems; and the Xia III Thoracolumbar Spinal System. Within the MedSurg Equipment segment, new product introductions in 2008 included the S3 Med/Surg Hospital Bed and the Neptune 2 Waste Management System.

Selling, general and administrative expenses increased 10% in 2008 and represented 39.1% of sales compared with 39.9% in 2007. The decrease in selling, general and administrative expenses as a percent of sales in 2008 is due to tight control of discretionary spending in the second half of 2008 partially offset by increases in sales-related costs and costs associated with compliance activities.

In 2008 the Company recorded $34.9 million ($21.7 million net of income taxes) in restructuring charges related to the decisions to simplify the structure of the Company s Japanese distribution business and to substantially reduce development efforts associated with Sightline product technologies acquired in 2006. In 2007 the Company recorded a $19.8 million charge ($12.7 million net of income taxes) to write off patents associated with intervertebral body fusion cage products. The impairment followed a U.S. Food and Drug Administration (FDA) decision to downgrade certain intervertebral body fusion products to Class II devices, along with a weak market for sales of these specific products. As a result, the Company performed a discounted cash flow analysis over the remaining life of the patented technologies and determined that the charge was required.

Interest and marketable securities income, which is included in other income (expense), increased to $97.7 million in 2008 from $85.5 million in 2007 primarily as a result of increased average cash and cash equivalents and marketable securities balances in 2008 compared to 2007. Interest expense, which is included in other income (expense), increased to $30.5 million in 2008 from $22.2 million in 2007, primarily as a result of interest expense associated with unresolved income tax positions.

The Company s effective income tax rate on earnings from continuing operations for the year ended December 31, 2008 was 27.4% compared to an effective income tax rate for the year ended December 31, 2007 of 28.0%. The effective income tax rate for the year ended December 31, 2008 reflects the impact of the restructuring charges of $21.7 million (net of $13.2 million income tax benefits). The effective income tax rate for the year ended December 31, 2007 reflects the impact of the intangible asset impairment charge of $12.7 million (net of $7.1 million income tax benefit). In addition to these factors, the Company s reported effective income tax rates for the years ended December 31, 2008 and 2007 are lower than the U.S. statutory income tax rate primarily as a result of manufacturing in lower income tax jurisdictions.

Net earnings from continuing operations increased 16% in 2008 to $1,147.8 million from $986.7 million in 2007. Basic net earnings per share from continuing operations increased 17% in 2008 to $2.81 from $2.41 in 2007, and diluted net earnings per share from continuing operations increased 17% in 2008 to $2.78 from $2.37 in 2007.

Excluding the impact of the restructuring charges recorded in 2008 and the charge to reflect the intangible asset impairment in 2007, adjusted net earnings from continuing operations increased 17% in 2008 to $1,169.5 million from $999.4 million in 2007. Adjusted basic net earnings per share from continuing operations increased 18% in 2008 to $2.87 from $2.44 in 2007, and adjusted diluted net earnings per share from continuing operations increased 18% in 2008 to $2.83 from $2.40 in 2007.

Table of Contents

The reconciliations of these non-GAAP financial measures are as follows (in millions, except per share amounts):

	2008	2007	Percentage Change
Reported net earnings from continuing operations	$ 1,147.8	$ 986.7	16
Restructuring charges	21.7		
Intangible asset impairment		12.7	(100)
Adjusted net earnings from continuing operations	$ 1,169.5	$ 999.4	17
Basic net earnings per share of common stock from continuing operations:			
Reported basic net earnings per share from continuing operations	$ 2.81	$ 2.41	17
Restructuring charges	$ 0.05		
Intangible asset impairment		$ 0.03	(100)
Adjusted basic net earnings per share from continuing operations	$ 2.87	$ 2.44	18
Weighted-average basic shares outstanding	408.1	409.7	
Diluted net earnings per share of common stock from continuing operations:			
Reported diluted net earnings per share from continuing operations	$ 2.78	$ 2.37	17
Restructuring charges	$ 0.05		
Intangible asset impairment		$ 0.03	(100)
Adjusted diluted net earnings per share from continuing operations	$ 2.83	$ 2.40	18
Weighted-average diluted shares outstanding	413.6	417.2	

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

Net earnings for the year ended December 31, 2007 included a gain of $25.7 million (net of income taxes), or $0.06 per diluted share, to reflect the divestiture of the Company s outpatient physical therapy business, Physiotherapy Associates, and net earnings from discontinued operations of $5.0 million, or $0.01 per diluted share.

Net earnings increased 13% in 2008 to $1,147.8 million from $1,017.4 million in 2007. Basic net earnings per share increased 13% in 2008 to $2.81 from $2.48 in 2007, and diluted net earnings per share increased 14% in 2008 to $2.78 from $2.44 in 2007.

Liquidity and Capital Resources

The Company s working capital at December 31, 2009 increased $893.0 million to $4,410.2 million from $3,517.2 million at December 31, 2008. The increase in working capital resulted from cash earnings, increases in accounts receivable and prepaid expenses partially offset by the use of cash to fund dividend payments and acquisitions. The increase in working capital is also due to the reclassification of auction rate securities (ARS) from non-current assets to current assets within the Consolidated Balance Sheet at December 31, 2009, as more fully described below. Accounts receivable days sales outstanding was 56 days at December 31, 2009 and 59 days at December 31, 2008. Days sales in inventory decreased by 10 days to 145 days at December 31, 2009 from 155 days at December 31, 2008. Days sales in inventory at December 31, 2009 is lower than the December 31, 2008 level primarily due to lower levels of inventory resulting from a slowdown in sales as well as higher excess and obsolete inventory costs associated with the Orthopaedic Implants businesses.

The Company generated cash of $1,460.7 million from operations in 2009 compared with $1,175.9 million in 2008. The increase in cash from operations in 2009 is primarily due to a reduction in inventories, slower growth in accounts receivable and increases in income taxes payable.

Table of Contents

In 2009 the Company used cash of $131.3 million for capital expenditures. In addition, the Company used cash of $198.4 million for the payment of dividends and $570.2 million of cash to fund acquisitions. The Company also purchased and sold marketable securities, which are classified as available-for-sale investments in accordance with the provisions of the *Investments-Debt and Equity Securities Topic* of the Financial Accounting Standard Board (FASB) Accounting Standards Codification (Codification).

The Company had $658.7 million in cash and cash equivalents and $2,296.1 million in current marketable securities at December 31, 2009. The Company had outstanding borrowings totaling $18.0 million at that date, all of which were classified as current obligations. The Company believes its cash on hand and marketable securities, proceeds from the January 2010 note offering as more fully described below as well as anticipated cash flows from operations, will be sufficient to fund future operating capital requirements; future manufacturing facility construction and other capital expenditures; future business and product line acquisitions to supplement its current product offerings; loaner instrumentation for surgical implants in support of new product launches; required debt repayments and the payment of dividends.

On January 15, 2010, the Company sold $500.0 million of senior unsecured notes due January 15, 2015 (the 2015 Notes) and $500.0 million of senior unsecured notes due January 15, 2020 (the 2020 Notes). The 2015 Notes will bear interest at 3.00% per year and, unless previously redeemed, will mature on January 15, 2015. The 2020 Notes will bear interest at 4.375% per year and, unless previously redeemed, will mature on January 15, 2020. The Company intends to use the net proceeds from the offering for working capital and other general corporate purposes, including acquisitions, stock repurchases and other business opportunities.

Should additional funds be required, the Company had $1,049.2 million of additional borrowing capacity available under all of its existing credit facilities as of December 31, 2009, including the Company s $1,000.0 million 5-year nonamortizing, revolving Unsecured Credit Facility that expires in November 2010.

The Company s additional borrowing capacity, along with the expected expiration period of the commitments, is summarized as follows (in millions):

	Total Amount Committed	Amount of Commitment Expiration Per Period Less Than 1 Year	In Excess of 1 Year
Unsecured Credit Facility and other lines of credit	$ 1,049.2	$ 1,015.3	$ 33.9

The Company reviews declines in the fair value of its investments classified as available-for-sale for impairment in accordance with the provisions of the *Investments-Debt and Equity Securities Topic* of the FASB Codification in order to determine whether the decline in fair value is an other-than-temporary impairment. Other-than-temporary impairments of available-for-sale marketable securities are recorded in earnings.

Beginning in February 2008, liquidity issues in the global credit markets resulted in the failure of auctions for all of the ARS investments held by the Company, as the amount of securities submitted for sale in those auctions exceeded the amount of purchase bids. To date, the Company has collected all interest receivable on outstanding ARS when due and expects to continue to do so in the future. Due to current market conditions, the ARS investments have continued to experience failed auctions. These failed auctions result in a lack of liquidity in the securities but do not affect the underlying collateral of the securities. The Company does not anticipate that the lack of liquidity in its ARS, even for an extended period of time, will affect its ability to finance its operations, including its expansion programs and planned capital expenditures. The Company continues to monitor efforts by the financial markets to find alternative means for restoring the liquidity of these investments.

As of December 31, 2009, the Company held $156.3 million, at par value, of ARS investments. In 2008 the Company entered into an ARS Rights agreement (Rights) with UBS Financial Services Inc. (UBS), one of its investment providers, whereby the Company received the right to sell its ARS at par value to UBS at any time

Table of Contents

during the period June 30, 2010 through July 2, 2012. These Rights are nontransferable securities registered with the U.S. Securities and Exchange Commission (U.S. SEC). As a result of accepting the ARS Rights, the Company has released UBS and its employees/agents from all claims except claims for consequential damages directly or indirectly relating to UBS s marketing and sale of ARS and agreed not to serve as a class representative or receive benefits under any class action settlement or investor fund. The Company has elected to apply the fair value option to its ARS Rights pursuant to the provisions of the *Financial Instruments Topic* of the FASB Codification. As a result of this election, in the twelve-month period ended December 31, 2009, the Company recorded a loss of $11.0 million in other income (expense) to recognize the change in fair value estimate of its ARS Rights; the loss was offset by a corresponding gain in the fair value estimate of the related trading marketable securities. The Company intends to exercise its ARS Rights described above when it becomes due and has, therefore, reclassified the ARS as current marketable securities within its Consolidated Balance Sheet as of December 31, 2009.

The Company s future contractual obligations for agreements with initial terms greater than 1 year, including agreements to purchase materials in the normal course of business, are summarized as follows (in millions):

	Payment Period						
	2010	**2011**	**2012**	**2013**	**2014**	**After 2014**	**Total**
Long-term debt	$ 18.0	$	$	$	$	$	$ 18.0
Operating leases	49.0	34.3	26.3	19.4	14.3	24.8	168.1
Unconditional purchase obligations	388.9	124.5	16.2	1.9	1.3	1.3	534.1
Contributions to defined benefit plans	19.0						19.0
Other	4.0	2.1	1.6	2.1	1.3	46.4	57.5
	$ 478.9	$ 160.9	$ 44.1	$ 23.4	$ 16.9	$ 72.5	$ 796.7

As further described in Note 12 to the Consolidated Financial Statements, as of December 31, 2009 the Company s defined benefit pension plans are in an underfunded status of $85.1 million. 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, the Company is not able to reasonably estimate the future periods, beyond 2010, in which contributions to fund defined benefit pension plans will be made. As further described in Note 13 to the Consolidated Financial Statements, as of December 31, 2009, the Company has recorded a liability for unresolved income tax positions of $292.7 million. Due to uncertainties regarding the ultimate resolution of income tax audits, the Company is not able to reasonably estimate the amount or the future periods in which income tax payments to settle these unresolved income tax positions will be made.

Critical Accounting Policies and Estimates

The preparation of the Company s Consolidated Financial Statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management evaluates these estimates and assumptions on an ongoing basis. Estimates are based on historical experience, when available, and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes that, of its significant accounting policies (see Note 1 to the Consolidated Financial Statements), an understanding of the following critical accounting policies is important in obtaining an overall understanding of the Consolidated Financial Statements.

Table of Contents

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses in the collection of accounts receivable. The Company makes estimates regarding the future ability of its 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

The Company maintains reserves for excess and obsolete inventory resulting from the potential inability to sell its products at prices in excess of current carrying costs. The markets in which the Company operates are highly competitive and new products and surgical procedures are introduced on an ongoing basis. These marketplace changes may cause some of the Company s products to become obsolete. The Company makes estimates regarding the future recoverability of the costs of these products and records a provision for excess and obsolete inventories 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

The Company operates in multiple income tax jurisdictions both inside and outside the United States. Accordingly, management must determine the appropriate allocation of income to each of these jurisdictions. Income tax audits associated with the allocation of this income and other complex issues, including inventory transfer pricing and cost sharing and product royalty arrangements, may require an extended period of time to resolve and may result in income tax adjustments if changes to the income allocation are required between jurisdictions with different income tax rates. Because income tax adjustments in certain jurisdictions can be significant, the Company records accruals representing management s best estimate of the probable resolution of these matters. To the extent additional information becomes available, such accruals are adjusted to reflect the revised estimated probable outcome.

Recently Adopted Accounting Standards

In 2009 the Company adopted the provisions of the *Business Combinations Topic* of the FASB Codification. This topic significantly changes the principles and requirements for how an acquisition is recognized and measured in financial statements, including the identifiable assets acquired and the liabilities assumed. This topic also provides guidance for recognizing and measuring goodwill acquired in a business combination and requires disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The additional disclosure requirements regarding the *Business Combinations Topic* of the FASB Codification are included in Note 5 to the Consolidated Financial Statements.

In 2008 the Company adopted the provisions of the *Fair Value Measurements and Disclosures Topic* of the FASB Codification for financial assets and liabilities measured on a recurring basis. This topic applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis, establishes a framework for measuring fair value of assets and liabilities and expands disclosures about fair value measurements. There was no impact to the Consolidated Financial Statements as a result of the adoption of this topic. The additional disclosure requirements regarding fair value measurements are included in Note 2 to the Consolidated Financial Statements. In 2009 the Company adopted the non-financial assets and liabilities guidance of the *Fair Value Measurement and Disclosures Topic* that were previously deferred.

In 2008 the Company adopted the provisions of the *Financial Instruments Topic* of the FASB Codification. This topic allows companies the option to measure eligible financial instruments at fair value. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. The Company has elected to apply the fair value option to its ARS Rights agreement as more fully described in *Liquidity and Capital Resources*.

Table of Contents

Other Matters

The Company distributes its products throughout the world. As a result, the Company s financial results could be significantly affected by factors such as weak economic conditions or changes in foreign currency exchange rates. The Company s operating results are primarily exposed to changes in exchange rates among the U.S. dollar, European currencies, in particular the euro and the British pound, the Japanese yen, the Australian dollar and the Canadian dollar. When the U.S. dollar weakens against foreign currencies, the dollar value of sales denominated in foreign currencies increases. When the U.S. dollar strengthens, the opposite situation occurs. The Company develops and manufactures its products in the United States, Canada, China, France, Germany, Ireland, Puerto Rico and Switzerland and incurs costs in the applicable local currencies. This worldwide deployment of facilities serves to partially mitigate the impact of currency exchange rate changes on the Company s cost of sales.

The Company enters into forward currency exchange contracts to mitigate the impact of currency fluctuations on transactions denominated in nonfunctional currencies, thereby limiting risk to the Company 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 as well as, in 2009, intercompany loans associated with the repatriation of foreign earnings. 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.

At December 31, 2009, the Company had outstanding forward currency exchange contracts to purchase $2,041.1 million and sell $280.5 million of various currencies (principally U.S. dollars and euros) with maturities ranging from 4 to 106 days. At December 31, 2008, the Company had outstanding forward currency exchange contracts to purchase $412.5 million and sell $288.4 million of various currencies (principally U.S. dollars and euros) with maturities ranging from 2 to 110 days. 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 U.S. dollar would change the December 31, 2009 fair value by approximately $79.1 million. The Company is exposed to credit loss in the event of nonperformance by counterparties on its outstanding forward currency exchange contracts but does not anticipate nonperformance by any of the counterparties.

The Company has 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 the year ended December 31, 2009, the strengthening of foreign currencies relative to the U.S. dollar increased the value of these investments in net assets and the related foreign currency translation adjustment gain in shareholders equity by $73.8 million to $277.5 million from $203.7 million at December 31, 2008.

In 2009 the Company received a subpoena from the Attorney General of New Jersey requesting various documents related to the financial interests and arrangements of physicians participating in certain clinical trials for or on behalf of the Company. The Company is evaluating the scope of the subpoena and its response. The Attorney General of New Jersey reportedly issued similar subpoenas to other major medical device manufacturing companies.

In 2009 a federal grand jury in the District of Massachusetts returned an indictment charging Stryker Biotech LLC and certain current and former employees of Stryker Biotech with wire fraud, conspiracy to defraud the U.S. Food and Drug Administration (FDA), distribution of a misbranded device and false statements to the FDA. The Company still hopes to be able to reach a fair and just resolution of this matter. Conviction of these charges could result in significant monetary fines and Stryker Biotech s exclusion from participating in federal and state health care programs, which could have a material affect on Stryker Biotech s business. However, the ultimate resolution of these matters is not reasonably estimatable at this time. The Company understands that certain former Stryker Biotech employees have pled guilty to charges in connection with this matter.

Table of Contents

In 2009 the Company received a warning letter from the U.S. FDA related to compliance issues for one of its craniomaxillofacial (CMF) implant products that was previously sold through its CMF distribution facility in Portage, Michigan. In 2008 the Company received a warning letter from the FDA related to quality systems and compliance issues at its OP-1 implant manufacturing facility in Hopkinton, Massachusetts. In 2007 the Company received two warning letters from the FDA regarding compliance with certain quality system specifications at its reconstructive implant manufacturing facilities: one letter for its facility in Cork, Ireland and another for its facility in Mahwah, New Jersey. In October 2009, the FDA informed the Company that the warning letter related to its OP-1 implant manufacturing facility had been resolved following a productive reinspection earlier in 2009. The Company takes these matters very seriously and continues to fully cooperate with the FDA to address their observations at the other facilities.

In 2007 the Company announced that it reached a resolution with the U.S. Attorney s office for the District of New Jersey in connection with a previously announced investigation relating to any and all consulting contracts, professional service agreements, or remuneration agreements between Stryker Corporation and any orthopedic surgeon, orthopedic surgeon in training, or medical school graduate using or considering the surgical use of hip or knee joint replacement/reconstruction products manufactured or sold by Stryker Corporation. The resolution was in the form of a non-prosecution agreement for an 18-month period that ended on March 27, 2009. During the term of the agreement, the Company s Orthopaedics subsidiary was subject to oversight by a federal monitor, as appointed by the U.S. Attorney, regarding compliance with certain standards and procedures in connection with the retention and payment of orthopaedic surgeon consultants related to reconstructive products and the provision of certain benefits to such surgeons. Subsequent to entering into the non-prosecution agreement, the U.S. Department of Health and Human Services, Office of Inspector General (HHS) issued a civil subpoena to the Company in seeking to determine whether the Company 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 Company produced numerous documents and other materials to HHS in response to the subpoena and had been working with HHS to attempt to narrow the scope of the requested production. In 2008 the U.S. Department of Justice and HHS sought judicial enforcement of the subpoena and a court agreed to enforce it in January 2009. At the same time, the U.S. District Court for the District of New Jersey dismissed the Company s complaint, which had asked the court to quash the subpoena and sought other appropriate relief on the grounds that the subpoena was overbroad and oppressive.

In 2007 the Company disclosed that the U.S. SEC made an informal inquiry of the Company regarding possible violations of the Foreign Corrupt Practices Act in connection with the sale of medical devices in certain foreign countries. Subsequently, in 2008, the Company received a subpoena from the U.S. Department of Justice, Criminal Division, requesting certain documents for the period since January 1, 2000 in connection with the U.S. SEC inquiry. The Company is fully cooperating with the U.S. Department of Justice and the U.S. SEC regarding these matters.

The Company is partially self-insured for product liability claims and utilizes a wholly owned captive insurance company in the United States to manage its self-insured retention limits. The captive insurance company provides insurance reserves for estimated liabilities for product claims incurred but not reported based on actuarially determined liabilities. The actuarial valuations are based on historical information along with certain assumptions about future events.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk are included in the Results of Operations, Liquidity and Capital Resources and Other Matters sections of the Company s Management s Discussion and Analysis of Financial Condition in Item 7 of this report.

Table of Contents

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, 2009 and 2008, and the related consolidated statements of earnings, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2009. 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, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, 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.

As discussed in Note 1 to the consolidated financial statements, in 2009 the Company changed its method of accounting for business combinations with the adoption of the guidance originally issued in FASB Statement No. 141(R), *Business Combinations* (codified in FASB ASC Topic 805, *Business Combinations*).

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, 2009, 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 26, 2010 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Grand Rapids, Michigan

February 26, 2010

Table of Contents

Stryker Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in millions, except per share amounts)

	December 31	
	2009	**2008**
ASSETS		
Current Assets		
Cash and cash equivalents	$ 658.7	$ 701.1
Marketable securities	2,296.1	1,494.5
Accounts receivable, less allowance of $66.3 ($44.5 in 2008)	1,147.1	1,129.5
Inventories	943.0	952.7
Deferred income taxes	602.2	521.9
Prepaid expenses and other current assets	204.1	179.6
Total current assets	5,851.2	4,979.3
Property, Plant and Equipment		
Land, buildings and improvements	693.4	686.7
Machinery and equipment	1,270.3	1,184.3
Total Property, Plant and Equipment	1,963.7	1,871.0
Less allowance for depreciation	1,016.1	907.2
Net Property, Plant and Equipment	947.6	963.8
Other Assets		
Goodwill	956.8	567.5
Other intangibles, less accumulated amortization of $421.0 ($383.8 in 2008)	634.7	368.0
Loaner instrumentation, less accumulated amortization of $771.3 ($708.3 in 2008)	285.4	275.2
Deferred income taxes	258.9	212.2
Other	136.7	237.3
Total assets	$ 9,071.3	$ 7,603.3
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 200.2	$ 274.3
Accrued compensation	354.1	336.8
Income taxes	134.7	30.0
Dividend payable	59.7	158.6
Accrued expenses and other liabilities	674.3	641.9
Current maturities of long-term debt	18.0	20.5
Total current liabilities	1,441.0	1,462.1
Other Liabilities	1,035.2	734.5
Shareholders Equity		
Common stock, $0.10 par value:		
Authorized 1,000.0 shares, Outstanding -397.9 shares (396.4 in 2008)	39.8	39.6
Additional paid-in capital	899.9	812.8
Retained earnings	5,397.4	4,389.5
Accumulated other comprehensive gain	258.0	164.8

Total shareholders equity	6,595.1	5,406.7
Total liabilities & shareholders equity	$ 9,071.3	$ 7,603.3

See accompanying notes to Consolidated Financial Statements.

Table of Contents

Stryker Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

(in millions, except per share amounts)

	Years Ended December 31		
	2009	2008	2007
Net sales	$ 6,723.1	$ 6,718.2	$ 6,000.5
Cost of sales	2,183.7	2,131.4	1,865.2
Gross profit	4,539.4	4,586.8	4,135.3
Research, development and engineering expenses	336.2	367.8	375.3
Selling, general and administrative expenses	2,506.3	2,625.1	2,391.5
Intangible asset amortization	35.5	40.0	41.4
Restructuring charges	67.0	34.9	
Intangible asset impairment			19.8
Total operating expenses	2,945.0	3,067.8	2,828.0
Operating income	1,594.4	1,519.0	1,307.3
Other income (expense)	29.5	61.2	62.8
Earnings from continuing operations before income taxes	1,623.9	1,580.2	1,370.1
Income taxes	516.5	432.4	383.4
Net earnings from continuing operations	1,107.4	1,147.8	986.7
Net earnings from discontinued operations			5.0
Net gain on sale of discontinued operations			25.7
Net earnings	$ 1,107.4	$ 1,147.8	$ 1,017.4
Basic net earnings per share of common stock:			
Net earnings from continuing operations	$ 2.79	$ 2.81	$ 2.41
Net earnings from discontinued operations			$ 0.01
Net gain on sale of discontinued operations			$ 0.06
Basic net earnings per share of common stock	$ 2.79	$ 2.81	$ 2.48
Diluted net earnings per share of common stock:			
Net earnings from continuing operations	$ 2.77	$ 2.78	$ 2.37
Net earnings from discontinued operations			$ 0.01
Net gain on sale of discontinued operations			$ 0.06
Diluted net earnings per share of common stock	$ 2.77	$ 2.78	$ 2.44

See accompanying notes to Consolidated Financial Statements.

Table of Contents

Stryker Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY