

## NOTE 1

## SIGNIFICANT ACCOUNTING POLICIES

*Business:* 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, craniomaxillofacial and spinal surgeries; biologics; surgical, neurologic, ear, nose & throat and interventional pain equipment; endoscopic, surgical navigation, communications and digital imaging systems; as well as patient handling and emergency medical equipment.

*Principles of Consolidation:* The Consolidated Financial Statements include the accounts of the Company and its subsidiaries after elimination of intercompany accounts and transactions.

*Use of Estimates:* The preparation of these Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles (GAAP), requires Company management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates.

*Revenue Recognition:* A significant portion of the Company's Orthopaedic Implants revenue is generated from consigned inventory maintained at hospitals or with field representatives. The Company retains title to all inventory held on consignment at hospitals or with field locations until the Company receives appropriate notification that the product has been used or implanted at which time revenue is recognized. The Company records revenue from MedSurg Equipment product sales when title and risk of ownership have been transferred to the customer, which is typically upon shipment to the customer. The Company records estimated sales returns, discounts and other applicable adjustments as a reduction of net sales in the same period revenue is recognized.

*Shipping and Handling of Products:* Amounts billed to customers for shipping and handling of products are included in net sales. Costs incurred related to shipping and handling of products are included in cost of sales.

*Foreign Currency Translation:* The functional currencies for substantially all of the Company's international affiliates are their local currencies. Accordingly, the financial statements of these international affiliates are translated into U.S. dollars using current exchange rates for balance sheets and average exchange rates for statements of earnings and cash flows. Unrealized translation adjustments are included in accumulated other comprehensive gain (loss) in shareholders' equity. Transaction gains and losses, such as those resulting from the settlement of nonfunctional currency receivables or payables, are included in net earnings.

*Financial Instruments:* The Company's financial instruments consist of cash, cash equivalents, marketable securities, accounts receivable, other investments, accounts payable, debt and foreign currency exchange contracts. The Company's estimates of fair value for financial instruments, other than marketable securities, approximate their carrying amounts as of December 31, 2008 and 2007.

The Company adopted the provisions of Financial Accounting Standard Board (FASB) Statement No. 157, *Fair Value Measurements*, for financial assets and liabilities measured on a recurring basis on January 1, 2008. This Statement 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 Statement. The additional disclosure requirements regarding fair value measurements are included in Note 2 to the Consolidated Financial Statements.

The Company adopted the provisions of FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, on January 1, 2008. This Statement 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 Auction Rate Securities (ARS) Rights agreement, as more fully described in Note 2 to the Consolidated Financial Statements.

Cash equivalents are highly liquid investments with a maturity of three months or less when purchased. Marketable securities consist of marketable debt securities and certificates of deposit and mutual funds. Mutual funds are acquired to offset changes in certain liabilities related to deferred compensation arrangements and are expected to be used to settle these liabilities. Pursuant to the Company's investment policy, all individual marketable security investments must have a minimum credit quality of single A (per Standard & Poor's) or A2 (per Moody's Corporation) at the time of acquisition, while the overall portfolio of marketable securities must maintain a minimum average credit quality of double A (per Standard & Poor's) or Aa (per Moody's Corporation). In the event of a rating downgrade below the minimum credit quality subsequent to purchase, the marketable security investment is evaluated to determine the appropriate action to take to minimize the overall risk to the Company's marketable security investment portfolio. As of December 31, 2008, approximately 1% of the Company's investments in marketable securities had a credit quality rating of less than single A (per Standard & Poor's).

The Company follows the provisions of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and related interpretations, in accounting for its marketable securities, which are classified as available-for-sale and trading securities. This Statement requires the Company to recognize all marketable securities on the Consolidated Balance Sheets at fair value. The Company's marketable securities are stated at fair value based on quoted market prices. Adjustments to the fair value of marketable securities that are classified as available-for-sale are recorded as increases or decreases, net of income taxes, within accumulated other comprehensive gain (loss) in shareholders' equity and adjustments to the fair value of marketable securities that are classified as trading are recorded in earnings. The amortized cost of marketable debt securities is adjusted for amortization of premiums and discounts to maturity computed under the effective interest method. Such amortization is included in other income (expense) along with interest and realized gains and losses. The cost of securities sold is determined by the specific identification method.

The Company reviews declines in the fair value of its investments classified as available-for-sale for impairment in accordance with Statement No. 115 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. The primary factors considered by the Company to recognize declines in the fair value of its investments as other-than-temporary impairments are the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value, the length of time and the extent to which the market value of the investment has been less than cost and the financial condition and near-term prospects of the issuer based on publicly available financial information.

The Company follows the provisions of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statements No. 137 and No. 138, which requires the Company to recognize all derivatives on the Consolidated Balance Sheets at fair value. 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. 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 to offset recognized gains and losses on the exposed transactions.

*Accounts Receivable:* Accounts receivable consists of trade and other miscellaneous receivables. 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. Accounts receivable are written off when all reasonable collection efforts are exhausted.

*Accounts Receivable Securitization:* The Company has an accounts receivable securitization facility pursuant to which certain subsidiaries of the Company sell, on an ongoing basis, all of their domestic accounts receivable to Stryker Funding Corporation (SFC), a wholly owned special-purpose subsidiary of the Company, which in turn may sell, without recourse, up to an aggregate of a \$100.0 million undivided percentage ownership interest in such receivables to bank-administered multiseller commercial paper conduits. Creditors of SFC have a claim to its assets before any equity becomes available to the Company.

There were no amounts of undivided percentage ownership interests in accounts receivable sold by SFC under the facility as of December 31, 2008 and 2007. Accounts receivable sold would be reflected in the Consolidated Balance Sheet as reductions of accounts receivable.

*Inventories:* Inventories are stated at the lower of cost or market. Cost for approximately 84% of inventories is determined using the first-in, first-out (FIFO) cost method. Cost for certain domestic inventories is determined using the last-in, first-out (LIFO) cost method. The FIFO cost for all inventories approximates replacement cost.

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.

*Property, Plant and Equipment:* Property, plant and equipment is stated at cost. Depreciation is computed by either the straight-line or declining-balance method over the estimated useful lives of 3 to 30 years for buildings and improvements and 3 to 10 years for machinery and equipment.

*Goodwill and Other Intangible Assets:* Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts allocated to other intangible assets. Other intangible assets include developed technology, which is amortized on a straight-line basis over 20 years, customer relationships (which reflect expected continued customer patronage), trademarks and patents, which are amortized on a straight-line basis over 4 to 40 years (weighted-average life of 15 years for other intangible assets).

*Goodwill and Long-Lived Assets Impairment Tests:* FASB Statement No. 142, *Goodwill and Other Intangible Assets*, requires companies to test goodwill for possible impairment on an annual basis. The Company performs the annual impairment test in the fourth quarter of each year using a discounted cash flow analysis that requires certain assumptions and estimates be made regarding market conditions and the Company's future profitability. The Company also performs impairment tests of goodwill and other intangible and long-lived assets during interim periods upon the occurrence of certain events or changes in circumstance, as defined in FASB Statements No. 142 and No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

*Loaner Instrumentation:* Loaner instrumentation represents the net book value of loaner instruments for surgical implants provided to customers by the Company. Loaner instrumentation is amortized on a straight-line basis over a 3-year period. Amortization expense for loaner instrumentation is included in selling, general and administrative expenses.

*Stock Options:* At December 31, 2008, the Company had key employee and director stock option plans, which are described more fully in Note 9 to the Consolidated Financial Statements. The Company measures the cost of employee stock options based on the grant-date fair value and recognizes that cost over the period during which a recipient is required to provide services in exchange for the options, typically the vesting period. The weighted-average fair value per share of options granted during 2008, 2007 and 2006, estimated on the date of grant using the Black-Scholes option pricing model, was \$19.87, \$21.90 and \$17.16, respectively. The fair value of options granted was estimated using the following weighted-average assumptions:

	2008	2007	2006
Risk-free interest rate	3.2%	4.8%	4.6%
Expected dividend yield	0.5%	0.5%	0.2%
Expected stock price volatility	22.7%	24.2%	24.8%
Expected option life	6.7 years	6.7 years	7.0 years

The risk-free interest rate for periods within the expected life of options granted is based on the U.S. Treasury yield curve in effect at the time of grant. Expected stock price volatility is based on historical volatility of the Company's stock. The expected option life, representing the period of time that options granted are expected to be outstanding, is based on historical option exercise and employee termination data. The Company recognizes the cost of stock options using the straight-line method over their vesting periods.

*Income Taxes:* The Company accounts for income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities and are measured using the enacted income tax rates in effect for the years in which the differences are expected to reverse. Deferred income tax credit represents the change in net deferred income tax assets and liabilities during the year.

The Company operates in multiple income tax jurisdictions both inside and outside the United States, and 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.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. This Interpretation clarified the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the Company's Consolidated Financial Statements. The Interpretation also provided guidance for the measurement and classification of income tax positions, interest expense and penalties, and requires additional disclosure on an annual basis. Upon adoption, the Company recognized an increase in the interest expense accrual associated with unresolved income tax positions, which was accounted for by reducing the January 1, 2007 balance of retained earnings by \$7.6 million (net of income taxes). Subsequent to the adoption, interest expense and penalties incurred associated with unresolved income tax positions continue to be included in other income (expense). In addition, upon adoption of the interpretation, the Company reclassified \$179.2 million from the current income taxes liability to noncurrent liabilities to match the anticipated timing of future income tax payments.

*Legal and Other Contingencies:* 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 15 to the Consolidated Financial Statements. The potential future outcomes of these matters are outside of management's control and 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 for the resolution of these legal matters is recorded. The estimates are based on consultation with legal counsel, previous settlement experience and settlement strategies. The Company does not anticipate material losses as a result of these proceedings beyond amounts already provided in the accompanying Consolidated Financial Statements.

*Accumulated Other Comprehensive Gain (Loss):* The components of accumulated other comprehensive gain (loss) are as follows (in millions):

	Unrealized Gains (Losses) on Securities	Unfunded Pension Gains (Losses)	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Gain (Loss)
Balances at January 1, 2007	\$ (1.0)	\$ (28.0)	\$119.6	\$ 90.6
Other comprehensive gain (loss) for 2007	1.1	16.4	152.7	170.2
Balances at December 31, 2007	0.1	(11.6)	272.3	260.8
Other comprehensive gain (loss) for 2008	0.8	(28.2)	(68.6)	(96.0)
Balances at December 31, 2008	\$ 0.9	\$ (39.8)	\$203.7	\$164.8

*Recently Issued Accounting Standards:* In 2007 the FASB issued Statement No. 141(R), *Business Combinations*—a replacement of FASB Statement No. 141. This Statement significantly changes the principles and requirements for how an acquisition is recognized and measured in a company's financial statements including the identifiable assets acquired and the liabilities assumed. The Statement also provides guidance for recognizing and measuring goodwill acquired in a business combination and required disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement is effective prospectively, except for certain retrospective adjustments to income tax balances, for the Company beginning on January 1, 2009.

In 2007 the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. This Statement significantly changes the financial accounting and reporting of noncontrolling (or minority) interests of a subsidiary in consolidated financial statements. This Statement is effective prospectively for the Company beginning on January 1, 2009.

In 2008 the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. This Statement requires enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand a company's use of derivative instruments and their effect on a company's financial position, financial performance and cash flows. This Statement is effective for the Company beginning on January 1, 2009.

*Reclassifications:* Certain prior year amounts have been reclassified to conform with the presentation used in 2008. In 2008 the Company changed its business segment reporting to include the financial results of certain products within its Orthopaedic Implants segment rather than within its MedSurg Equipment segment. Additional details are included in Note 13 to the Consolidated Financial Statements.

## NOTE 2

### FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company adopted the provisions of FASB Statement No. 157, *Fair Value Measurements*, for financial assets and liabilities measured at fair value on a recurring basis. This Statement requires fair value measurements be classified and disclosed in one of the following three categories:

*Level 1:* Financial instruments with unadjusted, quoted prices listed on active market exchanges.

*Level 2:* Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. The prices for the financial instruments are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

*Level 3:* Financial instruments that are not actively traded on a market exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

The Company's marketable securities include investments in auction-rate securities (ARS), the majority of which are triple A rated (per Standard & Poor's) and collateralized by student loans guaranteed by the U.S. Department of Education. The interest rates of these ARS investments are reset through an auction process, most commonly at intervals of 7, 28 and 35 days. The auction process is designed to provide a means by which these securities can be bought and sold and has historically provided a liquid market.

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. While the auction failures will limit the Company's ability to liquidate these investments, the Company believes that the ARS failures will have no impact on its ability to fund ongoing operations and growth initiatives. The Company continues to monitor efforts by the financial markets to find alternative means for restoring the liquidity of these investments. These investments will be classified as non-current assets until liquidity is restored in the market.

As of December 31, 2008, the Company held \$166.8 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 during the period from June 30, 2010 through July 2, 2012. These Rights are nontransferable securities registered with the U.S. Securities and Exchange Commission. As a result of accepting the 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 elected to measure the value of the Rights under the fair value option of FASB Statement No. 159, and recorded a gain of \$28.0 million in other income (expense), and a corresponding non-current asset within the Consolidated Balance Sheet. Simultaneously, the Company transferred the ARS investments, at their fair value of \$138.8 million, from available-for-sale to trading marketable securities. As a result of this transfer, the Company recognized a loss of \$28.0 million in other income (expense), reflecting a reversal of the related temporary valuation allowance that was previously recorded within accumulated other comprehensive gain (loss) in shareholders' equity. The Company anticipates that any future changes in the fair value of the Rights will be offset by the changes in the fair value of the related ARS, both of which will be adjusted to their estimated fair value on an ongoing basis.

As a result of the illiquidity in the market for ARS investments, the Company has estimated the fair value of its ARS and ARS Rights using a Level 3 valuation methodology. The Company's Level 3 valuations of its ARS and ARS Rights are based on the income approach, specifically, discounted cash flow analyses which utilize significant inputs based on the Company's estimates and assumptions. The discounted cash flow analyses included the following assumptions at December 31, 2008: current coupon rates, expected maturity dates, and current discount rates. The current coupon rates reflect the maximum rate per the ARS, specifically the 91 day U.S. Treasury bill trailing average over the prior one-year period plus 120 basis points. The expected maturity dates reflect an assumption of the future liquidity, specifically that markets will normalize in five years to allow ARS issuers to access markets to obtain alternative sources of financing, restructure or call bonds. The discount rates reflect a base rate, a credit spread and an illiquidity premium. The base rate corresponds to the 3-month Libor, which is also the base rate that matches the credit spread. The credit spread is consistent with triple A rated investments collateralized by student loans that are guaranteed by the U.S. Government under the Federal Family Education Loan Program. The illiquidity premium estimate is a proxy for additional return required in holding illiquid assets. The Company's valuation was supported by a broker pricing valuation that incorporates transaction details, such as contractual terms, maturity, timing and anticipated amounts of future cash flows, as well as assumptions about liquidity and credit valuation adjustments by marketplace participants at December 31, 2008. These adjustments are subject to future changes as the underlying market conditions and marketplace sources change.

The following table summarizes the valuation of the Company's financial instruments by the aforementioned pricing categories as of December 31, 2008 (in millions):

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
<b>Assets:</b>				
Cash and cash equivalents	\$ 701.1	\$ 701.1	\$ —	\$ —
Available-for-sale marketable securities	1,496.6	—	1,494.5	2.1
Trading marketable securities	165.0	26.2	—	138.8
ARS Rights	28.0	—	—	28.0
Foreign currency exchange contracts	1.0	—	1.0	—
	<u>\$2,391.7</u>	<u>\$ 727.3</u>	<u>\$1,495.5</u>	<u>\$ 168.9</u>
<b>Liabilities:</b>				
Deferred compensation arrangements	\$ 26.2	\$ 26.2	\$ —	\$ —

The following table presents a rollforward of the assets measured at fair value on a recurring basis using unobservable inputs (Level 3) at December 31, 2008 (in millions):

Balance as of January 1, 2008	\$ —
Transfers into Level 3	169.4
Other	<u>(0.5)</u>
Balance as of December 31, 2008	<u>\$ 168.9</u>



The following is a summary of the Company's marketable securities (in millions):

	Amortized Cost	Unrealized Gains/ (Losses)	Estimated Fair Value
At December 31, 2008			
Available-for-sale marketable securities:			
Corporate and asset backed debt securities	\$ 918.4	\$ (3.5)	\$ 914.9
Foreign government debt securities	226.5	2.4	228.9
U.S. agency debt securities	146.2	1.1	147.3
Certificates of deposit	135.9	0.2	136.1
Other	69.0	0.4	69.4
Total available-for-sale marketable securities	<u>\$1,496.0</u>	<u>\$ 0.6</u>	1,496.6
Trading marketable securities:			
Municipal debt securities			138.8
Mutual funds			<u>26.2</u>
Total trading marketable securities			<u>165.0</u>
Total marketable securities			<u>\$1,661.6</u>
Reported as:			
Current assets – Marketable securities			\$1,494.5
Noncurrent assets – Other			<u>167.1</u>
			<u>\$1,661.6</u>
At December 31, 2007			
Available-for-sale marketable securities:			
Corporate and asset backed debt securities	\$1,103.9	\$ –	\$1,103.9
Foreign government debt securities	431.8	(0.9)	430.9
U.S. agency debt securities	182.6	0.5	183.1
Municipal debt securities	164.2	0.1	164.3
Certificates of deposit	110.4	0.2	110.6
U.S. treasury debt securities	96.9	0.6	97.5
Other	30.0	–	30.0
Total available-for-sale marketable securities	<u>\$2,119.8</u>	<u>\$ 0.5</u>	2,120.3
Trading marketable securities:			
Mutual funds			<u>36.7</u>
Total marketable securities			<u>\$2,157.0</u>
Reported as:			
Current assets – Marketable securities			\$2,120.3
Noncurrent assets – Other			<u>36.7</u>
			<u>\$2,157.0</u>



The net carrying value and estimated fair value of available-for-sale marketable securities at December 31, 2008, by contractual maturity, are as follows (in millions):

	Cost	Estimated Fair Value
Due in one year or less	\$ 633.6	\$ 635.3
Due after one year through three years	797.3	797.0
Due after three years	63.1	62.2
	<u>\$1,494.0</u>	<u>\$1,494.5</u>

As of December 31, 2008, approximately 1% of the Company's investments in marketable securities were held in triple A rated (per Standard & Poor's) asset-backed debt securities, of which the majority related to investments in automobile loans. At December 31, 2008, the Company had no investments in marketable securities that were exposed to a risk of loss related to the subprime mortgage securities market.

Interest and marketable securities income, which is included in other income (expense), totaled \$97.7 million in 2008, \$85.5 million in 2007 and \$41.4 million in 2006.

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. At December 31, 2007, the Company had outstanding forward currency exchange contracts to purchase \$427.9 million and sell \$257.7 million of various currencies (principally U.S. dollars and euros) with maturities ranging from 4 to 101 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 and is recorded as a component of accrued expenses and other liabilities in the Consolidated Balance Sheets. At December 31, 2008, 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.

#### NOTE 3

##### INVENTORIES

Inventories are summarized as follows (in millions):

	December 31	
	2008	2007
Finished goods	\$727.4	\$614.0
Work-in-process	92.7	75.9
Raw materials	138.2	110.0
FIFO cost	958.3	799.9
Less LIFO reserve	(5.6)	(3.7)
	<u>\$952.7</u>	<u>\$796.2</u>

NOTE 4  
ACQUISITIONS

In 2006 the Company acquired all of the outstanding stock of Sightline Technologies Ltd. (Sightline), a private, development-stage company, for an upfront payment of \$50.0 million in cash plus certain transaction costs and the assumption of certain liabilities. Sightline, a developer of flexible endoscopes, was acquired to enhance the Company's presence in the gastrointestinal and other markets within its MedSurg Equipment segment. The purchase price was allocated to assets acquired, purchased in-process research and development and liabilities assumed based on their estimated fair value at the date of acquisition. The amount of the purchase price allocated to purchased in-process research and development resulted in a charge of \$52.7 million, or \$0.13 per diluted share, against the Company's 2006 operating results. At the date of the acquisition, the flexible endoscope technologies acquired had not yet reached technological feasibility. The amount written off as purchased in-process research and development was not deductible for income tax purposes in the United States. Terms of the transaction also included potential milestone payments of up to an additional \$90.0 million upon the achievement of certain operational and financial targets related to Sightline's products. The potential milestone payments are expected to be capitalized at their fair values as intangible assets at the time of payment.

Unanticipated issues have arisen that continue to delay the regulatory approval and commercialization efforts of new products associated with the technology acquired in the Sightline acquisition. During 2008 the Company substantially reduced the development efforts associated with these products, as more fully described in Note 6 to the Consolidated Financial Statements. However, the Company believes that the technology acquired in the Sightline acquisition may result in the introduction of new products and additional sales in future periods.

In 2005 the Company acquired, by merger, all of the outstanding stock of PlasmaSol Corp. (PlasmaSol), a private, development-stage company. PlasmaSol is a developer of a technology that should allow Stryker to provide sterilization equipment for use with certain of its MedSurg Equipment products. The cost of the transaction totaled \$17.5 million including an upfront payment in cash plus the assumption of certain liabilities. The purchase price was allocated to assets acquired, primarily deferred income tax assets associated with acquired net operating losses and purchased in-process research and development based on their estimated fair value at the date of acquisition.

In 2004 the Company acquired all of the outstanding stock of SpineCore, Inc. (SpineCore), a developer of artificial lumbar and cervical discs for an upfront payment of \$120.0 million in cash plus certain transaction costs. Terms of the transaction also include potential milestone and royalty payments of up to an additional \$240.0 million upon commercialization of SpineCore's products in the United States. The potential milestone payments are expected to be capitalized at their fair values as intangible assets at the time of payment. Current products under development include the FlexiCore lumbar artificial disc and the CerviCore cervical artificial disc.

The Company believes that the technologies acquired in each of the PlasmaSol and SpineCore acquisitions will result in the introduction of new products and additional future sales. However, unanticipated issues may arise that could further delay or terminate a product's development prior to regulatory approval or commercialization, which could have an unfavorable impact on the Company's operating results. As of December 31, 2008, the Company had not encountered significant issues and expects completion of the development and initial U.S. commercialization of the FlexiCore lumbar artificial disc, the CerviCore cervical artificial disc and the sterilization technology, following receipt of all required regulatory approvals.

NOTE 5

DISCONTINUED OPERATIONS

In 2007 the Company sold its outpatient physical therapy business, Physiotherapy Associates, for \$150.0 million in cash less certain indebtedness. The sale of Physiotherapy Associates allowed the Company to focus its efforts on the medical technology market. The sale of Physiotherapy Associates resulted in a gain of \$25.7 million (net of \$15.0 million income tax expense), or \$0.06 per diluted share. Net sales from discontinued operations for the years ended December 31, 2007 and 2006 were \$107.4 million and \$258.4 million, respectively. Net earnings from discontinued operations for the years ended December 31, 2007 and 2006 were \$5.0 million and \$6.3 million, respectively.

NOTE 6

RESTRUCTURING CHARGES

In 2008 the Company recorded restructuring charges consisting of the following items (in millions):

Asset impairment charges	\$22.3
Severance and related costs	8.5
Other	<u>4.1</u>
Total restructuring charges	<u>\$34.9</u>

The restructuring charges recorded in 2008 relate to the Company's decisions to simplify the structure of its Japanese distribution business and to substantially reduce development efforts associated with Sightline product technologies acquired in 2006. The \$22.3 million asset impairment charges represent the excess of net book value over fair market value for assets to be disposed of by sale, primarily related to sales offices and warehousing and distribution facilities in Japan. The \$8.5 million charge represents employment-related severance costs for 84 employees. The Company expects the asset disposals to be completed and final severance payments to be made in 2009.

NOTE 7

GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the net carrying amount of goodwill by segment for the years ended December 31, 2008 and 2007 are as follows (in millions):

	Orthopaedic Implants	MedSurg Equipment	Total
Balance as of January 1, 2007	\$462.2	\$ 48.8	\$511.0
Goodwill acquired	—	0.4	0.4
Foreign currency translation effects and other	15.2	0.8	16.0
Balance as of December 31, 2007	477.4	50.0	527.4
Foreign currency translation effects and other	40.2	(0.1)	40.1
Balance as of December 31, 2008	<u>\$517.6</u>	<u>\$ 49.9</u>	<u>\$567.5</u>

In the fourth quarters of 2008 and 2007, the Company completed the required annual impairment tests of goodwill as prescribed by FASB Statement No. 142, *Goodwill and Other Intangible Assets*, and determined, in all instances, that recorded goodwill was not impaired and that no goodwill write down was necessary.

The following is a summary of the Company's other intangible assets (in millions):

	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
At December 31, 2008:			
Amortized intangible assets:			
Developed technology	\$272.4	\$139.7	\$132.7
Customer relationship	177.9	53.7	124.2
Patents	239.0	151.8	87.2
Trademarks	32.2	17.5	14.7
Other	30.3	21.1	9.2
	<u>\$751.8</u>	<u>\$383.8</u>	<u>\$368.0</u>
At December 31, 2007:			
Amortized intangible assets:			
Developed technology	\$274.3	\$125.7	\$148.6
Customer relationship	184.1	48.8	135.3
Patents	215.0	127.4	87.6
Trademarks	38.3	22.4	15.9
Other	42.6	31.9	10.7
	<u>\$754.3</u>	<u>\$356.2</u>	<u>\$398.1</u>

The estimated amortization expense for each of the five succeeding years is as follows (in millions):

2009	\$ 36.2
2010	\$ 33.4
2011	\$ 30.7
2012	\$ 28.7
2013	\$ 26.5

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 the charge to recognize an intangible asset impairment was required.

## NOTE 8

### DEBT

The Company had current debt outstanding under various debt instruments totaling \$20.5 million and \$16.8 million at December 31, 2008 and 2007, respectively.

The Company also has a \$1,000.0 million Unsecured Credit Facility. The facility, which expires in November 2010, includes a senior 5-year nonamortizing, revolving credit agreement with a maximum amount of \$1,000.0 million. The Company may increase the credit facility maximum limit in \$100.0 million increments up to an additional \$500.0 million upon acceptance by the existing lender group or additional lenders. No amounts were outstanding under the Unsecured Credit Facility as of December 31, 2008 and 2007.

The Unsecured Credit Facility requires a facility fee ranging from 0.04% to 0.15% on the aggregate commitment of the credit facility, depending on the Company's debt rating. The credit facility includes a \$500.0 million multicurrency sublimit, under which yen and euro can be borrowed; a \$100.0 million swing line sublimit; and a \$100.0 million letter of credit sublimit. The credit facility bears interest at a base rate, as defined, plus an applicable margin ranging from 0.12% to 0.475%, depending on the Company's debt rating.

During 2008 the weighted-average interest rate, excluding required fees, for all borrowings was 5.7%. The Unsecured Credit Facility requires the Company to comply with certain financial and other covenants. The Company was in compliance with all covenants at December 31, 2008. In addition to the Unsecured Credit Facility, the Company has lines of credit, issued by various financial institutions, available to fund the Company's day-to-day operating needs. At December 31, 2008, the Company had \$1,079.4 million of additional borrowing capacity available under all of its existing credit facilities.

The carrying amounts of the Company's debt approximate their fair values, based on the quoted interest rates for similar types and amounts of borrowing agreements.

Interest paid on debt, including required fees, was \$5.7 million in 2008, \$6.5 million in 2007 and \$6.3 million in 2006; and approximates amounts reflected in interest expense, which is included in other income (expense).

NOTE 9

CAPITAL STOCK

During 2008 the Company repurchased 17.4 million shares of common stock in the open market at a cost of \$1,000.0 million pursuant to the repurchase programs authorized by the Company's Board of Directors. Shares repurchased under the share repurchase programs are available for general corporate purposes, including offsetting dilution associated with stock option and other equity-based employee benefit plans.

The Company has 0.5 million authorized shares of \$1 par value preferred stock, none of which is outstanding.

The Company has key employee and director stock option plans under which options are granted at an exercise price not less than the fair market value of the underlying common stock at the date of grant. The options are granted for periods of up to 10 years and become exercisable in varying installments. A summary of stock option activity follows:

	Shares (in millions)	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Options outstanding at January 1, 2008	24.8	\$38.98		
Granted	3.3	67.73		
Exercised	(3.4)	21.32		
Cancelled	<u>(0.9)</u>	51.25		
Options outstanding at December 31, 2008	<u>23.8</u>	\$45.01	5.9	\$103.8
Exercisable at December 31, 2008	13.9	\$36.01	4.5	\$103.8
Options expected to vest	9.7	\$57.31	7.8	\$ 0.4

The aggregate intrinsic value, which represents the cumulative difference between the fair market value of the underlying common stock and the option exercise prices, of options exercised during the years ended December 31, 2008, 2007 and 2006 was \$135.4 million, \$160.1 million and \$100.0 million, respectively. Shares reserved for future compensation grants of Stryker common stock were 19.7 million at December 31, 2008 and 22.9 million at December 31, 2007. Exercise prices for options outstanding as of December 31, 2008 ranged from \$12.14 to \$67.80. At December 31, 2008, there was \$138.9 million of unrecognized compensation cost related to nonvested stock options granted under the stock option plans; that cost is expected to be recognized over the following 6.2 years (weighted-average period of 1.7 years).

## NOTE 10

## NET EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted net earnings per share (in millions, except per share amounts):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net earnings	\$1,147.8	\$1,017.4	\$ 777.7
Weighted-average shares outstanding for basic net earnings per share	408.1	409.7	406.5
Effect of dilutive employee stock options	<u>5.5</u>	<u>7.5</u>	<u>5.3</u>
Adjusted weighted-average shares outstanding for diluted net earnings per share	<u>413.6</u>	<u>417.2</u>	<u>411.8</u>
Net earnings per share of common stock:			
Basic	\$ 2.81	\$ 2.48	\$ 1.91
Diluted	\$ 2.78	\$ 2.44	\$ 1.89

Options to purchase an average of 5.7 million, 0.9 million and 4.5 million shares of common stock during the years ended December 31, 2008, 2007 and 2006, respectively, were outstanding but were not included in the computation of diluted net earnings per share because the exercise prices of the options were greater than the average market price of common stock for those periods.



## NOTE 11

## RETIREMENT PLANS

Certain of the Company's subsidiaries have both funded and unfunded defined benefit pension plans covering some or all of their employees. Substantially all of the defined benefit pension plans have projected benefit obligations in excess of plan assets. A summary of the Company's defined benefit pension plans is as follows (in millions):

	December 31	
	<u>2008</u>	<u>2007</u>
Change in projected benefit obligation:		
Projected benefit obligations at beginning of year	\$ 230.7	\$ 220.9
Service cost	15.8	16.8
Interest cost	11.7	9.4
Foreign exchange impact	4.8	14.1
Employer contributions	3.5	2.8
Actuarial gains	(5.5)	(23.2)
Benefits paid	(8.9)	(10.1)
Projected benefit obligations at end of year	<u>252.1</u>	<u>230.7</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	172.4	148.7
Actual return	(35.3)	7.9
Employer contributions	13.9	13.4
Employee contributions	3.5	2.8
Foreign exchange impact	4.2	9.0
Benefits paid	(8.2)	(9.4)
Fair value of plan assets at end of year	<u>150.5</u>	<u>172.4</u>
Funded status	<u>\$ (101.6)</u>	<u>\$ (58.3)</u>
Weighted-average assumptions used in the determination of net periodic benefit cost for the year ended December 31:		
Discount rate	4.7%	4.4%
Expected return on plan assets	5.5%	5.8%
Rate of compensation increase	2.9%	2.9%

The weighted-average discount rate used in the determination of the projected benefit obligation was 4.9% and 4.8% as of December 31, 2008 and 2007, respectively.

The components of the amounts recognized in the Consolidated Balance Sheets are as follows (in millions):

	December 31	
	<u>2008</u>	<u>2007</u>
Noncurrent assets – Other	\$ 2.2	\$ 5.2
Current liabilities – Accrued compensation	(2.2)	(0.9)
Noncurrent liabilities – Other liabilities	(101.6)	(62.6)
	<u>\$ (101.6)</u>	<u>\$ (58.3)</u>

The components of the amounts recognized in accumulated other comprehensive gain (loss), before the effect of income taxes, are as follows (in millions):

	December 31	
	<u>2008</u>	<u>2007</u>
Unrecognized net actuarial loss	\$(49.1)	\$(12.8)
Unrecognized prior service cost	(0.7)	(0.9)
Unrecognized transition amount	(0.1)	(0.2)
Net amount recognized	<u>\$(49.9)</u>	<u>\$(13.9)</u>

The accumulated benefit obligation for all of the defined benefit pension plans was \$234.2 million and \$206.1 million as of December 31, 2008 and 2007, respectively. Pension plans with an accumulated benefit obligation in excess of plan assets had projected benefit obligations, accumulated benefit obligations and fair value of plan assets of \$187.5 million, \$174.9 million and \$86.1 million, respectively, as of December 31, 2008 and \$192.1 million, \$175.2 million and \$137.3 million, respectively, as of December 31, 2007.

The components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in other comprehensive gain (loss) before the effect of income taxes are as follows (in millions):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net periodic benefit cost:			
Service cost	\$(15.8)	\$(17.2)	\$(15.7)
Interest cost	(11.7)	(9.4)	(8.0)
Expected return on plan assets	11.1	8.9	7.7
Amortization of prior service cost and transition amount	(0.1)	(0.2)	(0.2)
Recognized actuarial loss	(0.2)	(1.0)	(1.4)
Net periodic benefit cost	(16.7)	(18.9)	(17.6)
Other changes in plan assets and benefits obligations, recognized in other comprehensive gain (loss):			
Net actuarial gain (loss)	(36.5)	20.8	2.7
Recognized net actuarial loss	0.2	1.0	1.4
Prior service cost and transition amount	0.3	0.1	-
Total recognized in other comprehensive gain (loss)	(36.0)	21.9	4.1
Total recognized in net periodic benefit cost and other comprehensive gain (loss)	<u>\$(52.7)</u>	<u>\$ 3.0</u>	<u>\$(13.5)</u>

The estimated net actuarial loss for the defined benefit pension plans to be recognized from accumulated other comprehensive gain (loss) into net periodic benefit cost in the year ended December 31, 2009, is \$2.3 million. The Company estimates that an immaterial amount of amortization of prior service cost and transition amount for the defined benefit pension plans will be recognized from accumulated other comprehensive gain (loss) into net periodic benefit cost in the year ended December 31, 2009.

The Company has assumed an average long-term expected return on defined benefit plan assets of 5.5% as of December 31, 2008. The expected return is determined by applying the target allocation in each asset category of plan investments to the anticipated return for each asset category based on historical and projected returns.

The weighted-average allocation of plan assets by asset category is as follows:

	December 31	
	<u>2008</u>	<u>2007</u>
Equity securities	50%	58%
Debt securities	41	34
Other	9	8
	<u>100%</u>	<u>100%</u>

The investment strategy for the Company's defined benefit pension plans is both to meet the liabilities of the plans as they fall due and to maximize the return on invested assets within appropriate risk tolerances. Reflected below are target investment allocation ranges for the plans at December 31, 2008:

	<u>Low</u>	<u>High</u>
	Equity securities	44%
Debt securities	32	49
Other	2	8

The Company anticipates contributing \$21.5 million to its defined benefit pension plans in 2009.

The following estimated future benefit payments, which reflect expected future service as appropriate, are expected to be paid in the years indicated (in millions):

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014-18</u>
Expected benefits payments	\$ 9.7	\$ 9.7	\$ 9.6	\$10.2	\$11.1	\$64.8

Retirement plan expense under the Company's defined contribution retirement plans totaled \$98.6 million in 2008, \$82.3 million in 2007 and \$67.3 million in 2006. A portion of the Company's retirement plan expense was funded with Stryker common stock totaling \$9.3 million in 2008, \$8.4 million in 2007 and \$7.0 million in 2006. The use of Stryker common stock represents a noncash operating activity that is not reflected in the Consolidated Statements of Cash Flows. The amount of Stryker common stock held by the Company's defined contribution retirement plans totaled \$58.8 million (approximately 1.5 million shares) and \$108.2 million (approximately 1.4 million shares) as of December 31, 2008 and 2007, respectively. The value of Stryker common stock as a percentage of total defined contribution retirement plan assets was 11% and 15% as of December 31, 2008 and 2007, respectively.

NOTE 12  
INCOME TAXES

At December 31, 2008, income tax authorities in several income tax jurisdictions both inside and outside the United States were conducting routine audits of the Company's income tax returns filed in prior years. These audits are generally designed to determine if individual income tax authorities are in agreement with the Company's interpretations of complex income tax regulations regarding the allocation of income to the various income tax jurisdictions. With few exceptions, the Company is no longer subject to audits by income tax authorities for tax years prior to 2001. Income tax years subsequent to 2000 are open to examination in many of the income tax jurisdictions in which the Company operates.

Earnings from continuing operations before income taxes consist of the following (in millions):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
U.S. operations	\$ 738.1	\$ 666.8	\$ 537.5
Foreign operations	842.1	703.3	556.3
	<u>\$1,580.2</u>	<u>\$1,370.1</u>	<u>\$1,093.8</u>

The components of the provision for income taxes follow (in millions):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current income tax expense			
Federal	\$ 262.3	\$ 290.9	\$ 231.9
State	48.1	49.5	29.6
Foreign	139.6	190.1	88.0
	450.0	530.5	349.5
Deferred income tax credit	(17.6)	(147.1)	(27.1)
	<u>\$ 432.4</u>	<u>\$ 383.4</u>	<u>\$ 322.4</u>

A reconciliation of the U.S. statutory income tax rate to the Company's effective income tax rate from continuing operations follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
U.S. statutory income tax rate	35.0%	35.0%	35.0%
Add (deduct):			
State income taxes, less effect of federal deduction	2.1	2.4	2.1
Income tax benefit relating to operations in Ireland and Puerto Rico	(10.5)	(9.4)	(9.1)
Nondeductible purchased in-process research and development	-	-	1.7
Nondeductible permanent differences	1.7	0.6	1.3
Foreign income taxes at rates different from U.S. statutory income tax rate	(0.2)	(0.1)	(0.3)
Other	(0.7)	(0.5)	(1.2)
	<u>27.4%</u>	<u>28.0%</u>	<u>29.5%</u>

Deferred income taxes reflect the net income tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are recorded to reduce deferred income tax assets when it is more likely than not that an income tax benefit will not be realized. The income tax effects of significant temporary differences, which comprise the Company's deferred income tax assets and liabilities, are as follows (in millions):

	December 31	
	2008	2007
Deferred income tax assets:		
Inventories	\$ 361.8	\$ 365.1
Other accrued expenses	146.2	121.8
Depreciation and amortization	25.1	21.7
State income taxes	21.3	25.4
Share-based compensation	82.5	70.5
Net operating loss carryforwards	35.2	35.4
Other	86.9	86.9
Total deferred income tax assets	759.0	726.8
Less valuation allowances	(24.9)	(20.6)
Total deferred income tax assets after valuation allowances	734.1	706.2
Deferred income tax liabilities:		
Depreciation and amortization	(177.5)	(152.1)
Other	(71.4)	(29.5)
Total deferred income tax liabilities	(248.9)	(181.6)
Total net deferred income tax assets	<u>\$ 485.2</u>	<u>\$ 524.6</u>
Reported as:		
Current assets – Deferred income taxes	\$ 521.9	\$ 534.4
Noncurrent assets – Deferred income taxes	212.2	171.8
Current liabilities – Accrued expenses and other liabilities	(87.6)	(36.4)
Noncurrent liabilities – Other liabilities	(161.3)	(145.2)
	<u>\$ 485.2</u>	<u>\$ 524.6</u>

Net operating loss carryforwards totaling \$137.4 million at December 31, 2008 are available to reduce future taxable earnings of certain domestic and foreign subsidiaries.

No provision has been made for U.S. federal and state income taxes or foreign income taxes that may result from future remittances of the undistributed earnings (\$3,092.4 million at December 31, 2008) of foreign subsidiaries because it is expected that such earnings will be reinvested overseas indefinitely. Determination of the amount of any unrecognized deferred income tax liability on these unremitted earnings is not practicable.

Total income taxes paid, net of refunds received, were \$478.5 million in 2008, \$411.6 million in 2007 and \$325.6 million in 2006.

The changes in the amounts recorded for unresolved income tax positions are as follows (in millions):

	December 31	
	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$233.8	\$185.1
Increases related to current year income tax positions	42.4	55.4
Increases related to prior year income tax positions	24.6	41.9
Decreases related to prior year income tax positions:		
Settlements and resolutions of income tax audits	–	(7.7)
Statute of limitations expirations	(4.1)	(2.4)
Other	<u>(19.6)</u>	<u>(38.5)</u>
Balance at end of year	<u>\$277.1</u>	<u>\$233.8</u>
Reported as:		
Current liabilities – Income taxes	\$ 9.1	\$ 3.8
Noncurrent liabilities – Other liabilities	<u>268.0</u>	<u>230.0</u>
	<u>\$277.1</u>	<u>\$233.8</u>

The Company's income tax expense could be reduced by \$241.6 million and \$204.9 million at December 31, 2008 and December 31, 2007, respectively, upon favorable resolution of these unresolved income tax positions. Interest expense and penalties included in other income (expense) were \$17.8 million for the year ended December 31, 2008. Accrued interest and penalties included in accrued expenses and other liabilities were \$52.6 and \$34.8 million at December 31, 2008 and December 31, 2007, respectively.

It is reasonably possible that the amount of unrecognized tax benefits will significantly change due to one or more of the following events in the next twelve months: expiring statutes, audit activity, tax payments, competent authority proceedings related to transfer pricing, or final decisions in matters that are the subject of controversy in various taxing jurisdictions in which we operate, including cost sharing and product royalty arrangements. The Company is not able to reasonably estimate the amount or the future periods in which changes in unrecognized tax benefits will be required.

#### NOTE 13

##### SEGMENT AND GEOGRAPHIC DATA

The Company segregates its operations into two reportable business segments: Orthopaedic Implants and MedSurg Equipment. The Orthopaedic Implants segment sells orthopaedic reconstructive (hip, knee and shoulder), trauma, craniomaxillofacial and spinal implant systems; bone cement; and the bone growth factor OP-1. The MedSurg Equipment segment sells surgical equipment; surgical navigation systems; endoscopic, communications and digital imaging systems; as well as patient handling and emergency medical equipment. The Other category includes corporate administration, interest expense, interest and marketable securities income and share-based compensation, which includes compensation related to both employee and director stock option and restricted stock grants.

Effective January 1, 2008, the Company changed its business segment reporting to include the financial results of certain products within its Orthopaedic Implants segment rather than within its MedSurg Equipment segment. The Company believes these products are better aggregated with its other Orthopaedic Implants products based on similarities in manufacturing and marketing practices and customer base.

The Company's reportable segments are business units that offer different products and services and are managed separately because each business requires different manufacturing, technology and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 to the Consolidated Financial

Statements. The Company measures the financial results of its reportable segments using an internal performance measure that excludes the restructuring charges recorded in 2008, the intangible asset impairment charge recorded in 2007 and the purchased in-process research and development charge recorded in 2006. Identifiable assets are those assets used exclusively in the operations of each business segment or allocated when used jointly. Corporate assets are principally cash and cash equivalents; marketable securities; property, plant and equipment; and, in 2006, assets of discontinued operations.

Sales and other financial information by business segment follows (in millions):

	Orthopaedic Implants	MedSurg Equipment	Other	Total
Year ended December 31, 2008:				
Net sales	\$3,967.5	\$2,750.7	\$ —	\$6,718.2
Interest and marketable securities income	—	—	97.7	97.7
Interest expense	—	—	(30.5)	(30.5)
Depreciation and amortization expense	308.1	72.2	7.3	387.6
Income taxes (credit)	310.7	162.8	(27.9)	445.6
Segment net earnings (loss)	760.4	471.2	(62.1)	1,169.5
Less restructuring charges, net of income tax benefits				<u>21.7</u>
Net earnings from continuing operations				1,147.8
Total assets	3,693.5	1,319.6	2,590.2	7,603.3
Capital expenditures	95.3	52.1	7.8	155.2
Year ended December 31, 2007:				
Net sales	3,587.3	2,413.2	—	6,000.5
Interest and marketable securities income	—	—	85.5	85.5
Interest expense	—	—	(22.2)	(22.2)
Depreciation and amortization expense	302.7	58.2	5.7	366.6
Income taxes (credit)	274.5	140.4	(24.4)	390.5
Segment net earnings (loss)	646.7	403.3	(50.6)	999.4
Less intangible asset impairment, net of income tax benefit				<u>12.7</u>
Net earnings from continuing operations				986.7
Total assets	3,597.2	1,211.0	2,545.8	7,354.0
Capital expenditures	126.7	52.2	8.8	187.7
Year ended December 31, 2006:				
Net sales	3,122.8	2,024.4	—	5,147.2
Interest and marketable securities income	—	—	41.4	41.4
Interest expense	—	—	(9.5)	(9.5)
Depreciation and amortization expense	267.9	53.0	3.2	324.1
Income taxes (credit)	238.3	109.9	(25.8)	322.4
Segment net earnings (loss)	563.5	317.7	(57.1)	824.1
Less purchased in-process research and development				<u>52.7</u>
Net earnings from continuing operations				771.4
Total assets	3,414.2	1,064.5	1,395.1	5,873.8
Capital expenditures	134.9	53.3	21.2	209.4



The countries in which the Company has local revenue-generating operations have been combined into the following geographic areas: the United States (including Puerto Rico); Europe, Middle East, Africa (EMEA); and other foreign countries, which is comprised of Japan, the Pacific region, Canada and the Latin America region. Sales are attributable to a geographic area based upon the customer's country of domicile. Long-lived assets, which include net property, plant and equipment, are based upon physical location of the assets. Geographic information follows (in millions):

	Net Sales	Long-Lived Assets
Year ended December 31, 2008:		
United States	\$4,282.2	\$1,440.1
EMEA	1,313.3	784.1
Other foreign countries	1,122.7	187.6
	<u>\$6,718.2</u>	<u>\$2,411.8</u>
Year ended December 31, 2007:		
United States	\$3,850.3	\$1,282.6
EMEA	1,193.3	779.4
Other foreign countries	956.9	215.3
	<u>\$6,000.5</u>	<u>\$2,277.3</u>
Year ended December 31, 2006:		
United States	\$3,298.4	\$1,321.1
EMEA	972.4	701.8
Other foreign countries	876.4	198.0
	<u>\$5,147.2</u>	<u>\$2,220.9</u>

NOTE 14  
LEASES

The Company leases various manufacturing, warehousing and distribution facilities, administrative and sales offices as well as equipment under operating leases. Future minimum lease commitments under these leases are as follows (in millions):

2009	\$ 47.7
2010	37.7
2011	26.5
2012	15.7
2013	12.2
Thereafter	27.1
	<u>\$166.9</u>

Rent expense totaled \$76.0 million in 2008, \$65.9 million in 2007 and \$56.0 million in 2006.

NOTE 15  
CONTINGENCIES

In 2008 the Company and certain current and former employees received subpoenas from the U.S. Department of Justice Office, Criminal Division, of the United States Attorney in Massachusetts requesting documents related to (i) false Institutional Review Board approvals; (ii) the amount of sales of OP-1 under one of the Company's Humanitarian Device Exemptions; and (iii) the off-label promotion of Calstrux in combination with OP-1. The Company is in the process of responding to the U.S. Department of Justice regarding this matter.

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. The Company takes these matters very seriously and has been fully cooperating with the FDA to address their observations.

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 is in the form of a non-prosecution agreement for an 18-month period ending on March 27, 2009. During the term of the agreement, the Company's Orthopaedics subsidiary is 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 the 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 is overbroad and oppressive.

In 2007 the Company disclosed that the U.S. Securities and Exchange Commission 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. Securities and Exchange Commission inquiry. The Company is fully cooperating with the U.S. Department of Justice and the U.S. Securities and Exchange Commission regarding these matters.

In 2006 the Company announced that it received a subpoena from the U.S. Department of Justice, Antitrust Division, requesting documents for the period since January 2001 regarding possible violations of federal criminal law, including possible violation of the antitrust laws, relating to the manufacture and sale of orthopaedic implant devices. In 2008 the Company was advised by the U.S. Department of Justice, Antitrust Division, that the Department had closed its grand jury investigation of antitrust and related offenses in the orthopaedic implants industry.

Pursuant to certain of the Company's credit and lease agreements, the Company has provided financial guarantees to third parties in the form of indemnification provisions. These provisions indemnify the third parties for costs, including but not limited to adverse judgments in lawsuits and the imposition of additional income taxes due to either a change in the tax law or an adverse interpretation of the tax law. The terms of the guarantees are equal to the terms of the related credit or lease agreements. The Company is not able to calculate the maximum potential amount of future payments it could be required to make under these guarantees, as any potential payment is dependent on the occurrence of future unknown events (e.g., changes in U.S. or foreign tax laws).