Stryker
2005 Annual Report

A Global Leader in Medical Technology

Financial Highlights

(in millions, except per share amounts)

	2004	2005	% Change
Net sales	$4,262.3	$4,871.5	14.3
Earnings before income taxes	717.0	1,003.3	39.9
Income taxes	251.3	328.1	30.6
Net earnings	465.7	675.2	45.0
Adjusted net earnings [1]	586.5	718.5	22.5
Diluted net earnings per share of common stock:			
Reported	$ 1.14	$ 1.64	43.9
Adjusted [1]	$ 1.43	$ 1.75	22.4

[1] Adjusted to exclude income taxes on the repatriation of foreign earnings in 2005 and the purchased in-process research and development charges recorded in 2005 and 2004.

2005 Operational Highlights

- Grew sales at double-digit rates in eight of nine product franchises.
- Launched X3 Polyethylene, our next-generation highly crosslinked polyethylene with a significantly higher level of strength and wear reduction in both hip and knee replacements.
- Filed Stryker's first Investigational New Drug application with the U.S. Food and Drug Administration for a clinical trial of a formulation of OP-1 for the nonsurgical treatment of degenerative disc disease.
- Completed enrollment in the U.S. trial of the FlexiCore next-generation lumbar disc replacement; received clearance in Australia and CE mark in Europe for FlexiCore; received conditional approval for a U.S. trial of the CerviCore cervical disc replacement and enrolled initial patients.
- Acquired eTrauma, the market leader in Picture Archive and Communications Systems (PACS) for orthopaedic practices; increased sales of OfficePACS and launched the complementary OrthoPad electronic medical records system.
- Repatriated $722 million of foreign earnings at a reduced income tax rate under the provisions of the American Jobs Creation Act.
- Named #1 in *Fortune's* Medical Products and Equipment category on its annual list of America's Most Admired Companies.

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Stryker occupies a unique position in the worldwide medical marketplace. We have the most broadly based range of products in orthopaedics, along with a significant presence in other specialties. Because of our breadth, we are able to leverage our capabilities to meet our customers' needs to simplify both procedures and supplier relationships and to produce exceptional outcomes for their patients. We have expanded and strengthened our core businesses by investing in promising technologies, such as biologics and surgical navigation, that are beginning to emerge as growth drivers for the future. And our reach is global, demonstrated by high growth in 2005 in countries ranging from Germany, the United Kingdom and Spain in Europe to India and Korea in the Pacific to Argentina in Latin America. Our broad range of products and wide geographical presence help us to play a leadership role in our industry.

To Our Shareholders:

In 2005, Stryker delivered on its long-standing commitments while investing for the future at an unprecedented pace, growing adjusted diluted net earnings per share by 22 percent and dramatically increasing research and development spending by 33 percent. We also completed our first CEO transition in over a quarter-century.

I am very pleased to have been asked to lead the Company at this time. Stryker has a remarkable history, and there is clearly no need to make radical changes simply for the sake of change. Yet, throughout the Company, we are working together to shape a vision for a future of continued success even as we face strong new competitors in the dynamic worldwide health-care market.

Seizing opportunities through rapid growth

We are surrounded by opportunities, but they can be clouded by uncertainty and risk. One fact stands out: to gain competitive advantage in today's complex business climate, Stryker will strive to be the fastest growing company in the markets we serve. We have developed four important imperatives to ensure that we meet the high expectations of our customers, our shareholders, the financial markets and each of us at Stryker.

Imperative: globalization

We have worked intently to drive our global franchises and reach more customers and patients. But there is much still to do as we determine how best to serve both developed and emerging markets. Our MedSurg businesses, which are very successful in the United States, hold the promise of significant growth around the world. We are now seeing markets as distinct as China and the United Kingdom respond enthusiastically to our high-value MedSurg products and are determined to unlock this same potential in all of our key markets.

Imperative: innovation

Stryker develops products that make a major difference to surgeons and their patients. Our skill at execution has long been a competitive advantage, and in recent years we have also dialed up the spirit of innovation throughout the Company. Today, we relentlessly pursue innovation and a deep understanding of customers' needs. We look for breakthrough ideas by investing in our research and development groups and by scouring the world for great concepts. This takes significant investments in R&D. While the pace of technological change is rapid throughout health care, it is especially brisk in such areas as endoscopic, digital imaging and communications systems, all of which are part of our Endoscopy division. The rewards of embracing high-speed, high-quality innovation can be tremendous—in 2005 our Endoscopy sales were more than double those of the entire Company in 1990, when the division was created.

Imperative: people development

Stryker's people are characterized by integrity, drive and commitment. We also need to increasingly think and work globally across divisions and within our data-driven environment. Prominent among our 2005 initiatives to foster this leadership style was the creation of the week-long Stryker Advanced Leadership Academy at Harvard Business School, designed to help the Company's top 150 executives think more broadly. These sessions have been inspiring to me personally, and insights from the participants have already become projects that are shaping Stryker's future.

Imperative: leverage across divisions

Our broadly based businesses provide Stryker with an unrivaled opportunity to leverage our strengths across divisions and provide comprehensive solutions to health-care organizations. In 2005, we formed or renewed strategic alliances with renowned medical institutions including the Mayo Clinic, Memorial Hermann Hospital and The Cleveland Clinic. In the case of The Cleveland Clinic, for example, we will support the institution over the next decade in developing, testing and advancing innovative orthopaedic surgical technologies. Because of the Clinic's prominence in research and education, this partnership will benefit the entire field of medical science.

Facing the challenges

As we look ahead, we see a number of challenges. We expect that the pricing environment will become tighter in the United States and Japan and that the current pricing pressures in Europe and Asia Pacific will continue. The positive currency gains that have helped us in the last few years will likely disappear. In the midst of these challenges, we are investing heavily in products to sustain our growth later in this decade. Because of our unique position in the industry, we are confident that we will deliver great short-term results while continuing to invest for the future.

A year of accomplishment

Europe, Japan and Asia Pacific delivered excellent results in 2005, and our Biotech, Instruments, Medical, Endoscopy, Spine and Trauma divisions turned in stellar performances. The Orthopaedics division admittedly had a tough year, but it ended on an encouraging note. This positive trend reflects the new leadership of Stryker veteran Mike Mogul, whom we previously called upon to turn around our German business.

We also strengthened our ability to build our global business by tapping Luciano Cattani as Group President, International. Luciano, formerly President, Stryker EMEA, is our first non-American Group President. In addition, as of January 1, 2006, Ron Lawson was named Executive Vice President, allowing us to leverage his experience to promote the Company's broad-based product portfolio.

I want to underscore how excited I am about Stryker's future. We believe in our fundamental course, our people, our products and our ability to execute. We also know that we can attain new levels of achievement by focusing on our four imperatives to accelerate growth.

I would like to thank everyone at Stryker and all of our stakeholders for their support during the past year. As John Brown transitioned into the Chairman's role, his continued support and wise counsel have been invaluable.

Sincerely,

Stephen P. MacMillan
President and Chief Executive Officer

A Message from Stryker Chairman John W. Brown

At the beginning of 2005, I stepped away from the day-to-day management of the Company and assumed a new role as nonexecutive Chairman of the Board. At the same time, Steve MacMillan was appointed Chief Executive Officer after doing an excellent job serving as President and Chief Operating Officer for a year and a half. The leadership hand-off and transition have gone well. Steve is doing a commendable job in the CEO role, and his strong background in marketing and as a global business leader brings a new and valuable perspective to Stryker's executive team. Today, as Stryker's nonexecutive Chairman, one of my roles is to serve as a sounding board for Steve. I take the responsibility as an advisor to and supporter of Steve very seriously, together with my fiduciary responsibilities as a director of the Company.

For many years, Stryker has been known for its powerful management team. It is good to see how Steve and the rest of the Stryker management team continue to uphold our long-established goal of 20 percent net earnings growth. Even as Stryker has grown, it has maintained a strong work ethic and culture of accountability. These traditions will continue to serve Stryker well. Moreover, our strong growth and significant market position in the MedSurg fields demonstrate that we are more than an orthopaedic implant company. We are a diversified medical technology company, and we hope this view is endorsed by our shareholders. The evolution of our international business is striking at this time. We have become a global company and are well positioned to meet our growth goals over the long term.

Stryker, together with the entire medical technology industry, is facing a series of market and oversight issues in the United States and around the world. An important part of the solution to these challenges lies in educating both policymakers and the public at large about the value our industry brings to society and the economy. For this reason, in addition to devoting my efforts to Stryker, I have made a commitment to our industry.

In December 2005, I assumed the chairmanship of The Institute for Health Technology Studies. Among the key aims of The Institute is to make possible a careful assessment of the costs and benefits that stem from medical technology innovation. It is our hope that the resulting data can be used to help make intelligent medical, social, economic and political choices. To that end, The Institute is sponsoring independent investigations by international researchers and institutions. It is my conviction that this groundbreaking work will demonstrate that medical technology delivers strong clinical results and is cost effective.

Stryker has just completed another great year. For that, I offer my thanks and congratulations to Steve MacMillan and all of Stryker's employees, as well as to our customers and investors.

A Global Leader in Medical Technology

Stryker is committed to pursuing business opportunities and bringing the best possible solutions to surgeons, patients and health-care systems throughout the world. To do so, we are accelerating our efforts to:

- Capitalize on a worldwide presence
  With local operations in markets worldwide, we are attuned to the needs and preferences of individual regions. In addition to decentralized sales organizations, our research and development, manufacturing and clinical activities span continents.

- Develop global product platforms
  We gather information from surgeons and health-care systems worldwide to develop products with universal appeal. We create international clinical and regulatory strategies to bring new products to market as efficiently as possible.

- Seek great ideas wherever they originate
  We constantly search for emerging trends and current products that we can expand beyond their original markets.

- Offer products that suit different medical cultures and lifestyle requirements
  We do not sell every product in every country. Rather, we offer a broad array, with specific products keyed to particular types of surgeon preferences and anatomical and lifestyle requirements.

Japan

Japan Overview

Total population:	127 million
65+ years:	20%
Health expenditure per capita:	$2,099
Physicians per 1,000 population:	2.0
Medical device market size:	$24.0 billion

Data are the most recent available from CIA World Factbook; AdvaMed; or Medistat, World Medical Markets Analysis. Health expenditure and medical device market size in U.S. dollars.

The world's second largest medical market, Japan has a culture that promotes healthy lifestyles and quality health care. As a result, its citizens enjoy the world's longest life expectancy and lowest rate of infant mortality. New technology is greatly valued by physicians and patients, but the adoption of new methods and devices is slowed by economic and regulatory constraints. In general, the population has a high tolerance for pain compared with Western countries, and surgical treatments often occur at a relatively later stage. Both the Japanese anatomy and lifestyle requirements differ from those in the West, and Stryker has successfully seized the opportunity to gain advantage by developing products specifically tailored to this market's needs. The percentage of the elderly within the population will increase dramatically after 2010, further heightening demand for orthopaedic and other medical products.

Stryker Japan

Headquarters:	Tokyo
Additional offices:	Fukuoka, Hiroshima, Kanazawa, Nagoya, Osaka, Sapporo, Sendai and Yokohama
Dedicated sales teams for:	Reconstructive implants, spine, trauma, medical and surgical instruments and equipment
2005 News:	• Stryker became the #1 trauma company in Japan and grew sales twice as fast as the market. • Sales of Stryker's Scorpio NRG knee implant, which was designed specifically for Japanese patients, increased at twice the rate of the market.

Gamma3 Hip Fracture System

Hip fractures are the fastest growing category in trauma surgery, and Stryker's Gamma3 nailing system is a market-defining product. The Gamma3 is the next generation of the Gamma family, which has an 18-year global clinical history. During 2005, its first full year on the market, the Gamma3 was well received around the world, with especially strong results in Japan. This implant was designed for global markets with input from surgeon panels worldwide and special attention to the Asian anatomy. It was also introduced with both titanium and stainless steel implants to meet the needs of different markets. The Gamma3 system supports minimally invasive surgical techniques and allows for earlier weight bearing after surgery.

A Portfolio for Japan

Stryker has positioned itself for long-term success in Japan by creating a portfolio of products that meets the needs of the Japanese market. Some products, such as the widely adopted CentPillar hip, were developed specifically for Japan. Some have been adapted for special circumstances; for example, our hip navigation system has been modified to incorporate CT scans, which are necessary because of the secondary osteoarthritis that is commonly present in Japanese patients' hip sockets. Other products that originated in Japan have been expanded to additional markets. The Scorpio NRG knee is based on the geometry of Stryker's Scorpio knee that is used in the rest of the world, but with the potential for greater range of motion. This highly successful Japanese product has been adopted in Europe, and it is now being evaluated for the U.S. market.

Resuming an Active Life

Trauma surgeon Dr. Kenji Yoshida of St. Mary's Hospital in Fukuoka, Japan, notes that he uses Stryker products because "they are developed on a research base and continually modified for even better surgical performance. All of the devices and instrumentation are refined to be simple to use." These factors helped determine the course of surgery for Kougorou Hanawa, who at age 90 broke his left femur neck in a fall while walking. Most patients of this age would not be treated with internal hip fracture devices, but since Mr. Hanawa was in extremely good health and active both physically and mentally, Dr. Yoshida used this approach. Following the surgery, Mr. Hanawa returned to work at his sons' law office, continued reading voraciously and resumed walking for exercise. Three years after his accident, he remains healthy and fit.


Michael Phipps
Project Engineer
Ranjini Srikantiah
Senior Manager
Gautam Srivini
Project Engineer

Focusing on Market Needs

At Stryker, success is associated with focus. We have been able to achieve outstanding results in Japan by creating solutions that are geared specifically to this market. The Japanese anatomy has special biomechanical features, and Japanese culture requires a high degree of flexion and range of motion. Our Japan Innovation and Business Development Team applies these factors to develop reconstructive implants for Japan in consultation with leading Japanese surgeons, together with comprehensive marketing and surgeon education programs. Team leader Ranjini Srikantiah credits the integration of engineering and marketing as a major factor. “As we prioritize new products, the engineers have immediate input and receive rapid feedback. This process accelerates both professional and product development. It’s very rewarding to be able to keep meeting needs and adding to our portfolio,” she says.

Yoshinari Haruyama
Marketing Elite Program
Team Member

Walter Heitmann
Project Engineer

Trauma and Navigation Teams for Japan

In addition to the reconstructive implant team for Japan, Stryker supports the Japanese market with dedicated teams in trauma and craniomaxillofacial (CMF) surgery. Key members of those teams include Stefan Voelzow, head of the trauma team, based in Kiel, Germany; Stefan Kugler, R&D engineer for trauma, based in Selzach, Switzerland; and Richard Aschenbrenner-Scheibe, software engineer for navigation, based in Freiburg, Germany.

United Kingdom

U.K. Overview

Total population:	60 million
65+ years:	16%
Health expenditure per capita:	$2,231
Physicians* per 1,000 population:	2.2
Medical device market size:	$7.1 billion

*Includes National Health Service employees only.

Data are the most recent available from CIA World Factbook; AdvaMed; or Medistat, World Medical Markets Analysis. Health expenditure and medical device market size in U.S. dollars.

In the United Kingdom, the practice of medicine relies heavily on clinically based decision making and long-term results. The National Health Service (NHS) has strengthened this orientation with the creation of new health-promotion and ratings organizations including the National Institute for Health and Clinical Excellence (NICE). The purpose of NICE is to bring together knowledge on promoting good health and treating illness while offering appraisals of technology, clinical guidelines and guidance on the safety and efficacy of interventional procedures. This initiative is part of a broad set of reforms designed to make the NHS more efficient and able to deliver better outcomes and patient experiences. In order to speed implementation, scheduled for completion by 2008, the reforms call for public-private partnerships. In this environment, Stryker intends to be an important partner with our customers.

Stryker U.K.

Headquarters:	Newbury, Berkshire
Dedicated sales teams for:	Reconstructive implants, trauma, CMF, spine, biologics, endoscopy, surgical instruments and surgical navigation
2005 News:	• Stryker's Exeter hip achieved 35 years of clinical excellence and a 10A "gold standard" rating from the United Kingdom's Orthopaedic Data Evaluation Panel based on long-term patient outcomes. • Sales of Stryker's postoperative pain products in the United Kingdom tripled from 2004 to 2005.

Exeter Hip System

Stryker's Exeter hip has benefited patients in the United Kingdom and around the world since its introduction in 1970. Because Professor Robin S.M. Ling, OBE, FRCS, who invented the Exeter hip with Dr. Clive Lee, initiated early clinical data gathering, no other prosthesis has such a long-term clinical record. A 33-year study of recipients of the original Exeter hip and a 12-year study of a slightly modified design both demonstrate that this implant far exceeds the standards established by the official U.K. rating authority. Nine out of 10 Exeter hips implanted in patients in the early 1970s are still in place. Despite its long history, the Exeter hip is compatible with the latest innovations, including ceramic hip sockets, as shown here, and computer-navigated surgery.

Two Exeter Hips and Going Strong

Victor Small, now 83, of Sidmouth, Devon, developed osteoarthritis of the hip at age 46. Judged too young to have a hip replacement, he was treated with stop-gap measures in the late 1960s. By the fall of 1972, his condition worsened so that a replacement was necessary in his right hip. Victor received an Exeter implant and returned to work within a few months. This implant has functioned flawlessly ever since. In 1984, Victor required a replacement in his other hip. Again, he received an Exeter implant that is still going strong today. As he explains, "I've had my right hip for 33 years and my left for 21. They have made an amazing difference in my life, allowing me to go back to work and be active and independent. Some people are still being told that they are too young to have a hip replacement because the implants do not last long enough. I'm living proof that implants can last for many years."

Clinical Results Matter

Recognizing how important long-term clinical outcomes are to British surgeons and the National Health Service, Stryker is the first medical technology company to submit 15-year clinical data for review by the national Orthopaedic Data Evaluation Panel (ODEP). This submission is for the Exeter hip, which has already earned the ODEP's highest 10A rating. The ODEP does not yet rate knee implants, but the track record of positive results contained in recently published studies of our Scorpio knee has dramatically increased its sales in the U.K. market.

Australia

Australia Overview

Total population:	20 million
65+ years:	13%
Health expenditure per capita:	$1,777
Physicians per 1,000 population:	2.5
Medical device market size:	$2.2 billion

Data are the most recent available from CIA World Factbook; AdvaMed; or Medistat, World Medical Markets Analysis. Health expenditure and medical device market size in U.S. dollars.

Australia's medical market is large and advanced, and the country has high life expectancy and quality health-care facilities. Australian physicians and surgeons are noted for their strong inclination to develop and adopt new technologies, techniques and products in an effort to bring the best medical care to their patients. Conditions are favorable for continued strong growth in medical technology and orthopaedic solutions. The government has identified arthritis and musculoskeletal conditions as one of seven national health priorities. Stryker has successfully studied and introduced new products in this market, and we are currently pursuing still more advanced technologies. While Australia has an active medical device industry, its producers operate on a small scale, so the majority of medical products are imported, primarily from the United States.

Stryker Australia/New Zealand

Headquarters:	Sydney, New South Wales
Additional offices:	Adelaide, Auckland, Brisbane, Melbourne and Perth
Dedicated sales teams for:	Reconstructive implants, trauma, CMF, spine, biologics, endoscopy and surgical instruments
2005 News:	• OP-1 became Stryker's largest-selling single product in Australia. • Stryker holds the #1 market share in Australia in multiple areas—total joint replacement, CMF and powered surgical instruments.

OP-1

Expansion and process improvements at our biotechnology plant in New Hampshire, U.S. (shown here), have enabled us to meet the growing worldwide demand for OP-1. Demand is particularly high in Australia, where surgeons were eager to work with OP-1 Implant as it was being developed. Australia became the first country to clear OP-1 Implant for difficult-to-heal long-bone fractures and has approved the broadest use to date.

In the United States, OP-1 Putty, another formulation, is now used in revision spinal fusion under the Humanitarian Device Exemption and is moving toward full approval. We are initiating a clinical study of a liquid formulation of OP-1 as a drug to treat degenerative disc disease and believe that there is opportunity for this product in the regeneration of soft tissue as well as bone.

On the Leading Edge

Surgeons in Australia have a well-deserved reputation as innovators. Consequently, Stryker has met with success in the Australian market by partnering with many surgeons and researchers. Australia was an early adopter of our ceramic-on-ceramic hip implants and surgical navigation systems. Our first sale of an i-Suite operating room outside the United States was in Australia, where more than 25 of these advanced surgical suites are now installed. Surgeons from Australia and New Zealand also played a major role in helping us develop instruments for minimally invasive surgery.

Back in the Race

Semiprofessional motorcycle racer and businessman John Young of Melbourne loves the racing world, but a severe fracture nearly ended his career. While testing a racing bike in 1997, John broke both the ulna and radius—the long bones that extend from the elbow to the wrist—of his right arm. After a double internal fixation surgery, the ulna healed, but the shattered radius did not. In 1998 John, who was living in the United States at the time, traveled to Australia for a consultation with Dr. Andrew Shimmin of the Melbourne Orthopaedic Group. When Dr. Shimmin removed the broken fragments of the radius, a 7-centimeter section of bone was gone. Within two weeks after treatment with OP-1, shell bone had formed in this area, and within six months John was able to use his arm. “These days, it’s like nothing happened,” he explains. “I have no pain, I’ve regained my full strength and it doesn’t affect me in the slightest.”

Ensuring the Future of OP-1

As demand for OP-1 grows, it is essential to ensure the consistency and long-term capacity of this innovative product. Leading the effort is a team of four seasoned biotechnology professionals who have implemented large-scale process improvements and tremendous efficiencies in both time and cost in a challenging context. OP-1 is a biologic product, so consistency needs to be carefully managed. Further, as a global product, OP-1 is subject to the requirements of diverse regulatory authorities, and it is variously licensed as a drug, a device and a combination of both. Our team speaks with one voice: "We follow a rational program strategy and communicate constantly to integrate new evidence. We also maintain open communication with regulators. We are confident of our process because we operate with a quality mindset."

Judith Sernatinger
Vice President, Global Quality

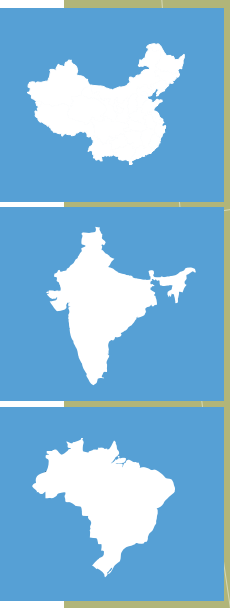
Dean Falb
Vice President, Research & Development

Bernadette Alford
Vice President, Regulatory Affairs

Sau-Gee Yung
Vice President, Operations

Emerging Markets

- China is Stryker's largest endoscopy market outside the United States.
- Stryker's Exeter hip business in India has increased tenfold since 2002, when we initiated an Exeter training program with surgeons who visited from Australia.
- Stryker has long relationships with its Brazilian distributors. In fact, we continue to work with Oscar Iskin & Cia. Ltda., the distributor with which we started our Brazilian business over 50 years ago.



While emerging markets exhibit cultural differences, they share many structural similarities. In general, these markets have significant pricing pressures, underdeveloped reimbursement systems, evolving regulatory organizations and fragmented distribution channels. Yet, particularly in China, India and Brazil, the opportunities are enormous. These countries have extraordinarily large populations. They increasingly demand health-care services and better patient outcomes, and they are eager for surgeon education. The challenge is to find the right combination of acceptability, accessibility and affordability in each market. Stryker's extensive international experience and operational, procedural and manufacturing efficiencies position us for long-term success in emerging markets. We are also creating broad-based solutions that can benefit the full spectrum of the population in developing countries.

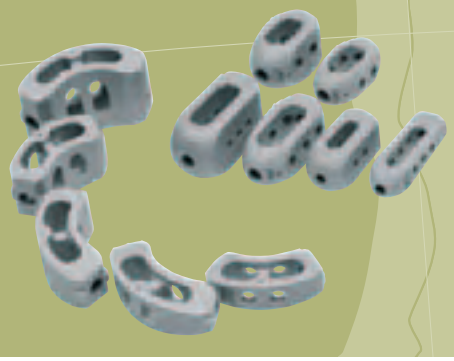
China Overview	
Total population:	1.3 billion
Medical device market size:	$3.5 billion
Year Stryker began China operations:	1978
India Overview	
Total population:	1.1 billion
Medical device market size:	$1.3 billion
Year Stryker began India operations:	1990
Brazil Overview	
Total population:	186 million
Medical device market size:	$2.6 billion
Year Stryker began Brazil operations:	1950

Data are the most recent available from CIA World Factbook; AdvaMed; or Medistat, World Medical Markets Analysis. Medical device market size in U.S. dollars.

Ogival Interbody Cages/Adaptive Vertebral Spacers

Stryker's Ogival Interbody Cages are well established in spine surgery outside the United States, with more than 100,000 implanted since 1997. A primary benefit is their biocompatible thermoplastic material, polyetheretherketone (PEEK). Because PEEK is radiolucent, it improves the radiographic view of the interbody space after surgery. In 2005, we successfully introduced a version of these devices in the U.S. market.

They received market clearance as vertebral body replacement devices to be used in conjunction with a supplemental fixation system, such as Stryker's Xia, SR90D or Trio, and are sold as the Adaptive Vertebral Spacer (AVS) system. The AVS system has grown quickly because of its wide variety of shapes and sizes and simple insertion technique.



Supplying Beds for Emerging Markets

Stryker's medical and surgical beds hold appeal for emerging markets for many of the same reasons that they are leaders in the United States—excellent design and functionality, ease of use, comfort and safety. But emerging markets also require value pricing. We have recently increased our Quebec plant's capacity by 50 percent to respond to the need for lower-cost, limited-feature beds. We ship beds from Quebec throughout North America and to emerging markets in Latin America, South Africa, Asia Pacific and the Middle East.

Doing More for Patients

"Spine surgeons can do so much more for patients today than we could 20 years ago. New devices help us produce better results, and that is incredibly rewarding," says Dr. Fernando Laffitte, who practices in Curitiba, Paraná, Brazil. He and his team perform about 500 surgeries annually to treat spinal diseases, using a variety of Stryker implants. Dr. Laffitte cites the value of the Ogival Interbody Cage in treating degenerative disease, and he is also pleased with the results achieved with Stryker's Dekompressor in a minimally invasive approach to disc diseases. As Dr. Laffitte observes, "Spine surgery will continue to evolve. Surgeons need trustworthy device companies like Stryker to support us, and we must continually provide them with feedback. Only by working together will we create new implants and surgical techniques that can make a major difference for us and our patients."

Germany Overview

Total population:	82 million
65+ years:	19%
Health expenditure per capita:	$2,686
Physicians per 1,000 population:	3.7
Medical device market size:	$22.5 billion

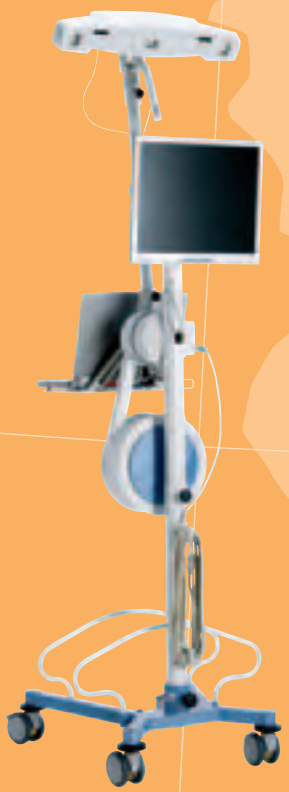
Data are the most recent available from CIA World Factbook; AdvaMed; or Medistat, World Medical Markets Analysis. Health expenditure and medical device market size in U.S. dollars.

Germany

With the largest population of any European country, Germany has high life expectancy and health standards, although some discrepancies still exist between the former East and West Germany. The country is in the midst of ongoing health-care reforms. Germany ranks as the third largest medical device market in the world and has the sixth highest per capita spending in this area. As these facts suggest, the German medical market places a high value on technology that stems from a long history of developing and manufacturing innovative, top-tier medical equipment. Germany is unique in its emphasis on trauma as both a surgical and manufacturing specialty. Stryker manufactures world-class, market-leading trauma, CMF and surgical navigation products in Germany and sells its broader line of products to the German market.

Stryker Germany

Headquarters:	Duisburg
Dedicated sales teams for:	Reconstructive implants, trauma and biologics, spine, CMF, surgical instruments and endoscopy
2005 News:	German TV featured Stryker's new i-Suite at Medizinische Hochschule Hannover as the most advanced operating-room installation in the country.
Noteworthy fact:	Stryker's plant in Kiel was founded over a century ago by the engineer who invented the first intramedullary locking nail, which revolutionized the way fractures are treated. Today, Stryker produces hundreds of thousands of intramedullary implants for worldwide distribution at this facility.



Stryker Portable Navigation System

Stryker pioneered surgical navigation with hardware platforms and software applications developed at our navigation center in Freiburg, Germany. Today, we are the world's market leader in navigation units sold with orthopaedic software. There is much room to grow; the American Association of Orthopaedic Surgeons estimates that only about 3 percent of U.S. orthopaedic surgeons currently employ navigation. The adoption rate is much higher in Europe, led by Germany, which has embraced our navigation technology since it was launched in 2001. We are primed for growth not only because of the quality of our technology, but because of our broad portfolio approach. In 2005, we launched the portable system globally, providing a highly compact format for navigation that requires little floor space at an affordable price.

Synergy Spurs Innovation

Germany is an important market for Stryker because of its size, sophistication and enthusiasm for new technology. But Germany represents far more—it is also an incubator of new ideas and technologies. A long history of excellence in engineering, optics, machining and manufacturing has laid a foundation for a large and robust medical technology industry. The Freiburg navigation team develops technologies that have a high degree of synergy with Stryker's orthopaedics franchise and that address unmet needs in neurosurgery and other specialties.

At the Forefront of Technology

Stryker's commanding position in internal fixation is rooted in German technology and leadership in trauma surgery. We partner with thought leaders including Prof. Dr. med. Volker Bühren, Chief of Surgical Services and Medical Director of the Murnau Trauma Center and a key contributor to the design of our T2 Intramedullary Nailing System for long-bone fractures. While continuing work on this system, Prof. Bühren is applying navigation to trauma surgery in a pilot clinical study. "We have expanded the T2 system in significant ways, such as being able to treat fractures located near joints," he says. "Now we are testing instrumentation for specific navigated procedures. Stryker's trauma and navigation groups are highly inventive, which makes for exciting collaborations. For example, the Murnau Trauma Center and Stryker have joined with Paracelsus Medical Private University to advance biomechanical innovation."


Michael Porbadnik
Manager, Operations Navigation
Markus Nagel
Supervisor, Distribution
Amir Sarvestani
Senior Manager, Orthopaedic Applications
Corina Rieflin
Director, Supply Chain Management

Joining Forces for Navigation

At Stryker's facility in Freiburg, Germany, employees representing functional areas from product development to distribution join forces to meet the worldwide demand for our surgical navigation systems. We are the only navigation company to produce both the hardware and software for navigation—including the digital camera at the core of our navigation platform technology—all developed in Freiburg. In 2005, we introduced enhanced knee, hip and neurosurgery systems, together with portable applications of the technology. "To keep generating this level of innovation, Stryker must be visionary and fully exploit computer-assisted technologies," notes development leader José-Luis Moctezuma. Supply chain chief Corina Rieflin adds, "We understand that we are all working together on a global business. Today, through novel distribution arrangements, we are able to deliver navigation systems more quickly to hospitals around the world."

Jochen Breisacher
Manager,
Platform Technologies

José-Luis Moctezuma
Senior Director, Advanced
Technologies Development

Dieter Franki
Director, Quality Assurance/
Regulatory Affairs, Information
Technology

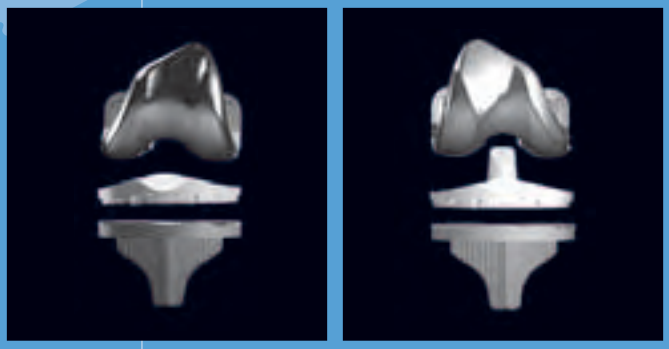
United States

U.S. Overview

Total population:	295 million
65+ years:	12%
Health expenditure per capita:	$5,670
Physicians per 1,000 population:	2.8
Medical device market size:	$94.0 billion

Data are the most recent available from CIA World Factbook; AdvaMed; or Medistat, World Medical Markets Analysis. Health expenditure and medical device market size in U.S. dollars.

The United States is the world's largest medical market, accounting for 43 percent of all medical devices sold worldwide, and its population is aging rapidly. Because of its level of economic development and its leadership in technological innovation, the United States is quick to adopt advanced health-care methods and devices. Yet cost containment is a growing issue for both private insurers and government-sponsored programs. Device makers face pricing pressures and are taking steps to demonstrate the value of medical technology. In this complex market, Stryker has been successful by focusing on specific segments with expert, specialized sales forces to align with the needs of surgeons and support better patient outcomes. We are also able to provide comprehensive solutions across our divisions, helping hospitals achieve their objectives in an ever-changing health-care environment.



Triathlon Knee System

Truly a next-generation knee option, the Triathlon system utilizes Stryker's product development and engineering experience to more closely reproduce natural knee motion. This knee is designed to provide deep flexion with stability, comfort and the potential for greater implant longevity —all part of the lifestyle recovery that many of today's patients seek. The system also makes surgical planning easier, and the instrumentation promotes operating room efficiency and flexibility during the surgical process. The cruciate-retaining version of the Triathlon system was released in the United States at the end of 2004 and the posterior-stabilized version in 2005 to strong surgeon acceptance. Triathlon was also launched in Europe and Asia Pacific in 2005. This system was developed with a global panel of surgeons to ensure that it would meet the needs of patients around the world.

Orthopaedic Surgeon, Orthopaedic Patient

Dr. Carlton Savory, who practices at the Hughston Orthopaedic Clinic in Columbus, Georgia, and teaches and lectures throughout the world, has used Stryker reconstructive implants since the 1980s. Dr. Savory served on the design panel for Stryker's Triathlon Knee System and was the first surgeon to implant this device. Having experienced knee problems for years, Dr. Savory finally became a patient himself. In late 2004, he had both knees replaced using the Triathlon system. Seven weeks later, Dr. Savory was able to resume his full schedule. A year after his surgery, he notes, "Like many other patients, I put off knee replacement, but the time came when I knew I needed to have surgery in order to continue my practice and the other things I enjoy. I had great confidence in the Triathlon design, and it's been justified."

The Orthopaedics Continuum

In the United States, Stryker addresses the entire spectrum of orthopaedic care from total joint replacement and revision to outpatient rehabilitation services. Our Physiotherapy Associates business works in tandem with orthopaedists to provide preoperative conditioning and pain management in addition to postoperative therapy that can help patients return to optimal mobility, range of motion and strength.

Physiotherapy Associates performed solidly in 2005 and ended the year with 488 facilities in 28 states and the District of Columbia. Working with leadership groups in professional golf, Physiotherapy Associates is the official sports medicine provider of the PGA TOUR, LPGA and Champions Tour.

Strength in Numbers

On the west coast of Florida, as throughout Stryker, our sales representatives collaborate across divisions to help hospital customers reach their objectives of positive patient outcomes, product standardization and inventory reduction. Because of Stryker's broad product range and high quality, we are uniquely able to fulfill the needs of hospitals and health-care systems. Joe Trainor, a Stryker sales representative for 25 years, estimates that he has helped put together over a dozen interdivisional programs in recent years with other Stryker reps like those pictured here. "We emphasize listening rather than selling, so we are able to leverage Stryker's strengths and create solutions for our customers," says Joe. "Stryker's creativity promotes innovation, so we continually find new opportunities."

Archie Hopkins
Sales Representative
Orthopaedics

Mike Underwood
Sales Representative
Spine

Michael Palmer
Sales Representative
Interventional Pain


Jeff Grimner
Account Manager,
Southeast Region
Medical
Jason Mayfield
Regional Manager, Southeast
Region
Craniomaxillofacial
Joe Trainor
Sales Representative
Instruments
Michael Fox
Sales Representative
Endoscopy

United States

Stryker U.S.

Headquarters:	Kalamazoo, Michigan
Dedicated sales teams for:	Reconstructive implants, trauma, CMF, spine, biologics, endoscopy, digital imaging, communications, operating room equipment, powered surgical instruments, interventional pain, surgical navigation, patient-handling equipment and emergency medical services equipment
2005 News:	• Our Medical division grew at two times the rate of the market. • The Mayo Clinic selected Stryker Spine as a preferred vendor for the next three years. • Stryker opened a new facility near Dallas, Texas, for our Communications and Imaging business units. The location takes advantage of the Dallas Communications Corridor and offers customers the chance to experience our fully integrated technologies for the operating room and surgical office.

OfficePACS

With the 2005 acquisition of eTrauma, Stryker became the market leader in digital imaging for the orthopaedic clinic. The OfficePACS (Picture Archive and Communications System) product reflects the way orthopaedic surgeons work, so it is simple for practices to adopt and immediately attain the benefits of improved efficiency and workflow. OfficePACS aids in case planning, giving the surgeon the ability to determine the size and placement of incisions and necessary degrees of implant offset while moving seamlessly between viewing and templating functions. Stryker offers OfficePACS as a turnkey solution that integrates completely with our surgical navigation systems and i-Suite operating rooms. With only about 10 percent of U.S. orthopaedic practices using PACS systems, the market opportunity is large. In the third quarter of 2005, we launched OrthoPad, our electronic medical records software, which complements OfficePACS.

Maestro Pneumatic Drill

In 2005, we expanded our line of micro powered instruments for spine, neurology and ear, nose and throat applications with the Maestro drill. Employing the pneumatic technology that is the preference of many U.S. surgeons in these specialties, this new drill leverages our Total Performance System and CORE technologies by using the same cutting attachments. The Maestro drill also has strong potential in other areas of the world where pneumatic technology is commonly used in both small-bone and large-bone surgery.

Giving Patients the Best

When it comes to patient sleep surfaces, Lorena Eckert, RN, BSN, CWOCN, is an expert. A certified wound-care nurse, she is responsible for the treatment and prevention of skin ulcers among patients at the 372-bed Scripps Memorial Hospital La Jolla in La Jolla, California, where she also teaches others about her specialty. In 2004, Lorena led a multidisciplinary team of nurses, physical therapists, orthopaedic technicians and ergonomic specialists to evaluate new beds and pressure redistribution sleep surfaces for the entire hospital. The team's choice was Stryker. As Lorena explains, "A person can develop skin ulcers in a matter of hours on the wrong sleep surface. We want to create the best possible environment for our patients. We also look at comfort, because with a better surface patients often don't need sleep medications. In addition, we recognize the importance of ergonomics and ease of use for our staff."

The Road Ahead

We have chosen a road that we believe makes the most of opportunities while mitigating risk. In addition to operating globally, Stryker is diversified and decentralized. These factors allow us to withstand fluctuations within and across markets. Our broad product range enables us to serve varied health-care systems, patient needs and surgeon preferences.

We do not simply sell U.S. products abroad. Rather, we develop global technologies based on the needs of customers around the world and advice from the best thought leaders in the borderless surgical community. This open approach also makes it possible for us to adopt and enhance leading-edge technologies no matter where they originate. Yet, where regional needs dictate, we respond with solutions tailored to anatomical and lifestyle requirements, as we have successfully done in Asia. Because of our leadership, reach and close working relationships with customers, we see and address emerging trends that cut across worldwide markets.

Stryker has been successful in serving the world's leading medical markets, and we have plans in place to continue to do so. We are also dedicated to developing equally vibrant businesses in emerging markets. To reach our goals, we will leverage our unique position in the worldwide medical marketplace by supplying the most broadly based range of products in orthopaedics, providing significant offerings in other specialties and investing in promising technologies to strengthen our capabilities and meet our customers' needs.

FINANCIAL REVIEW

TEN-YEAR REVIEW

(dollars in millions, except per share amounts)

SUMMARY OF OPERATIONS	*2005*	*2004*	*2003*
Net sales	$4,871.5	$4,262.3	$3,625.3
Cost of sales:			
Before inventory step-up	1,713.9	1,510.1	1,312.4
Inventory step-up	–	–	–
Total cost of sales	1,713.9	1,510.1	1,312.4
Gross profit	3,157.6	2,752.2	2,312.9
Research, development and engineering expenses	279.8	211.0	180.2
Selling, general and administrative expenses	1,814.3	1,652.2	1,416.0
Intangibles amortization	48.8	47.8	45.4
Purchased in-process research and development	15.9	120.8	–
Restructuring, acquisition-related and special charges (credits)	–	–	–
Gain on patent judgment	–	–	–
	2,158.8	2,031.8	1,641.6
Operating income	998.8	720.4	671.3
Other income (expense)	4.5	(3.4)	(18.8)
Earnings before income taxes and extraordinary item	1,003.3	717.0	652.5
Income taxes	328.1	251.3	199.0
Earnings before extraordinary item	675.2	465.7	453.5
Extraordinary loss, net of income taxes	–	–	–
Net earnings	$ 675.2	$ 465.7	$ 453.5
Net earnings per share of common stock[a]:			
Basic	$ 1.67	$ 1.16	$ 1.14
Diluted	$ 1.64	$ 1.14	$ 1.11
Dividend per share of common stock[a]	$ .11	$ .09	$ .07
Average number of shares outstanding – in millions[a]:			
Basic	403.7	401.2	397.8
Diluted	411.6	410.3	406.8

(a) Adjusted for the two-for-one stock splits effective June 10, 1996, May 12, 2000 and May 14, 2004.
(b) Excludes net extraordinary loss per share of $.01 basic and $.01 diluted.

FINANCIAL AND STATISTICAL DATA	*2005*	*2004*	*2003*
Cash and marketable securities	1,056.5	349.4	65.9
Working capital	1,621.3	1,029.1	563.2
Current ratio	2.3	1.9	1.7
Property, plant and equipment – net	831.0	700.5	604.7
Capital expenditures	271.7	187.8	144.5
Depreciation and amortization	289.9	250.9	229.7
Total assets	4,944.1	4,083.8	3,159.1
Long-term debt, including current maturities	231.6	10.0	26.1
Shareholders' equity	3,251.8	2,752.0	2,154.8
Return on average equity	22.5%	19.0%	24.8%
Net cash provided by operating activities	863.8	593.3	648.5
Number of shareholders of record	3,979	3,784	3,084
Number of employees	17,265	15,891	14,762

2002	*2001*	*2000*	*1999*	*1998*	*1997*	*1996*
$3,011.6	$2,602.3	$2,289.4	$2,103.7	$1,103.2	$ 980.1	$ 910.1
1,111.2	963.8	815.2	791.5	464.3	397.7	392.4
–	–	–	198.2	7.8	–	–
1,111.2	963.8	815.2	989.7	472.1	397.7	392.4
1,900.4	1,638.5	1,474.2	1,114.0	631.1	582.4	517.7
141.4	142.1	122.2	105.2	61.0	56.9	56.9
1,165.4	985.4	885.6	808.4	373.6	334.3	326.6
28.9	38.4	34.7	33.9	7.6	7.2	6.3
–	–	–	–	83.3	–	7.5
17.2	0.6	(1.0)	18.9	19.0	–	34.3
–	–	–	–	–	–	(61.1)
1,352.9	1,166.5	1,041.5	966.4	544.5	398.4	370.5
547.5	472.0	432.7	147.6	86.6	184.0	147.2
(40.8)	(66.3)	(97.8)	(117.8)	4.3	11.3	18.9
506.7	405.7	334.9	29.8	90.9	195.3	166.1
161.1	133.9	113.9	10.4	30.9	70.0	61.6
345.6	271.8	221.0	19.4	60.0	125.3	104.5
–	(4.8)	–	–	–	–	–
$ 345.6	$ 267.0	$ 221.0	$ 19.4	$ 60.0	$ 125.3	$ 104.5
$ .87	$ .69[b]	$ .57	$ .05	$ .16	$ .33	$ .27
$ .85	$ .67[b]	$ .55	$ .05	$ .15	$ .32	$ .27
$ .06	$ .05	$ .04	$ .033	$ .03	$ .028	$ .025
395.1	392.5	390.3	387.6	385.2	385.0	387.4
407.7	406.1	402.3	397.2	392.5	392.5	393.7

2002	*2001*	*2000*	*1999*	*1998*	*1997*	*1996*
37.8	50.1	54.0	83.5	138.6	351.1	367.6
443.8	459.7	379.6	440.8	666.2	433.7	501.8
1.6	1.9	1.6	1.7	2.0	2.4	3.0
519.2	444.0	378.1	391.5	429.5	163.9	172.3
139.0	161.9	80.7	76.4	51.3	35.2	26.7
186.1	172.0	168.6	162.8	53.2	49.5	34.7
2,815.5	2,423.6	2,430.8	2,580.5	2,875.4	985.1	993.5
501.7	722.6	1,012.5	1,287.4	1,503.0	78.1	93.9
1,498.2	1,056.2	854.9	671.5	672.6	612.8	530.4
27.1%	27.9%	29.0%	2.9%	9.3%	21.9%	21.2%
516.2	473.2	331.8	284.0	154.5	91.9	204.3
2,983	2,886	2,904	2,929	3,061	3,127	3,306
14,045	12,839	12,084	10,925	10,974	5,691	5,274

Executive Level Overview

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. Stryker also provides outpatient physical therapy services in the United States.

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, spinal and micro 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 Physical Therapy Services and corporate administration, interest expense and interest income.

Domestic sales accounted for 65% of total revenues in 2005. Most of the Company's products are marketed directly to more than 6,000 hospitals and to doctors and other health-care facilities by approximately 2,800 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 35% of total revenues in 2005. The Company's products are sold in more than 100 countries through both Company-owned sales subsidiaries and branches and 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 2005, the Company completed the repatriation of $722 million of foreign earnings under the provisions of the American Jobs Creation Act (the Act). The Act provided a temporary incentive for United States companies to repatriate accumulated income earned in foreign jurisdictions at a reduced income tax cost. Additional details, including the financial statement impact resulting from the repatriation of funds, are included in *Results of Operations.*

In the fourth quarter of 2005, the Company acquired, by merger, all of the outstanding stock of PlasmaSol Corp. (PlasmaSol). PlasmaSol has developed 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 approximately $17.5 million including an upfront cash payment plus the assumption of certain liabilities.

In the first quarter of 2005, the Company acquired, by merger, eTrauma.com Corp. (eTrauma) for approximately $50.0 million in cash plus certain transaction costs. The acquisition expanded the Company's digital imaging equipment product offerings within its MedSurg Equipment segment by adding eTrauma's proprietary Picture Archive and Communications Systems (PACS) image management and viewing software.

In the third quarter of 2004, the Company completed its acquisition, by merger, of all of the outstanding stock of SpineCore, Inc. (SpineCore), for an upfront payment of $120.0 million in cash plus certain transaction costs. SpineCore is a developer of artificial lumbar and cervical discs. Terms of the transaction also include milestone and royalty payments of up to an additional $240.0 million upon the achievement of commercialization of SpineCore's products in the United States, which is not expected to occur before 2008. This acquisition is expected to enhance the Company's presence in the spinal implant market, an important growth area within its Orthopaedic Implants segment.

Additional details, including the financial statement impacts resulting from these acquisitions, are included in *Results of Operations.*

Outlook for 2006

The Company's outlook for 2006 continues to be optimistic regarding underlying growth rates in orthopaedic procedures and the Company's broadly based range of products in orthopaedics and other medical specialties, despite the potential for increased pricing pressure on Orthopaedic Implants products in the United States, Japan and certain other foreign markets. The Company projects diluted earnings per share of $2.02 in 2006, including the recognition of the cost of employee stock options as described in *Other Matters*. The projection represents a 21% increase over adjusted restated diluted net earnings per share of $1.67 in 2005 calculated as follows:

Adjusted restated diluted net earnings per share for 2005:	
Reported diluted net earnings per share	$1.64
Deduct stock option compensation expense–fair value method	$ (.08)
Restated diluted net earnings per share	$1.57
Adjustments:	
Purchased in-process research and development	$ .04
Income taxes on repatriation of foreign earnings	$ .07
Adjusted restated diluted net earnings per share	$1.67

The purchased in-process research and development charge and the additional income taxes on the repatriation of foreign earnings are more fully described in *Results of Operations*.

The financial forecast for 2006 includes a net sales increase in the range of 11% to 14% as a result of growth in shipments of Orthopaedic Implants and MedSurg Equipment and higher revenue from Physical Therapy Services, offset by unfavorable foreign currency exchange rate movements. If foreign currency exchange rates hold near current levels, the Company anticipates an unfavorable impact on net sales of approximately 2% to 3% in the first quarter of 2006 and an unfavorable impact on net sales of approximately 1% to 2% for the full year of 2006. Excluding the effect of foreign currency exchange rates, the Company expects annual net sales growth in the range of 12% to 15% in 2006, which is comparable to the 14% sales growth, excluding the effect of foreign currency exchange rates, reported for the full year of 2005.

Results of Operations

The table below outlines the components of 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	
	2005	*2004*	*2003*	*2005/04*	*2004/03*
Net sales	100.0%	100.0%	100.0%	14%	18%
Cost of sales	35.2	35.4	36.2	13	15
Gross profit	64.8	64.6	63.8	15	19
Research, development and engineering expenses	5.7	5.0	5.0	33	17
Selling, general and administrative expenses	37.2	38.8	39.1	10	17
Intangibles amortization	1.0	1.1	1.3	2	5
Purchased in-process research and development	0.3	2.8	–	(87)	–
Operating income	20.5	16.9	18.5	39	7
Other income (expense)	0.1	(0.1)	(0.5)	–	(82)
Earnings before income taxes	20.6	16.8	18.0	40	10
Income taxes	6.7	5.9	5.5	31	26
Net earnings	13.9%	10.9%	12.5%	45	3

The table below sets forth domestic/international and product line sales information:

	Net Sales (in millions)			Percentage Change	
	2005	*2004*	*2003*	*2005/04*	*2004/03*
Domestic/international sales:					
Domestic	$3,165.6	$2,753.0	$2,333.4	15%	18%
International	1,705.9	1,509.3	1,291.9	13	17
Total net sales	$4,871.5	$4,262.3	$3,625.3	14	18
Product line sales:					
Orthopaedic Implants	$2,855.1	$2,562.5	$2,192.5	11	17
MedSurg Equipment	1,753.8	1,454.9	1,209.8	21	20
Physical Therapy Services	262.6	244.9	223.0	7	10
Total net sales	$4,871.5	$4,262.3	$3,625.3	14	18

The table below sets forth additional sales growth information for significant products within the Company's Orthopaedic Implants and MedSurg Equipment product lines on both a reported basis and a constant currency basis, which excludes the impact of changes in foreign currency exchange rates:

	Percentage Change			
	2005/04		*2004/03*	
	Reported	Constant Currency	Reported	Constant Currency
Worldwide Orthopaedic Implants sales:				
Hips	4%	4%	14%	9%
Knees	14	13	18	14
Trauma	15	16	17	11
Spine	17	17	18	15
Micro implants	12	12	16	12
Worldwide MedSurg Equipment sales:				
Surgical equipment and surgical navigation systems	16	16	17	15
Endoscopic, communications and digital imaging systems	24	24	21	20
Patient handling and emergency medical equipment	23	22	25	23

2005 Compared with 2004

Stryker Corporation's net sales increased 14% in 2005 to $4,871.5 million from $4,262.3 million in 2004. Net sales grew by 12% as a result of increased unit volume and changes in product mix, 1% related to higher selling prices and 1% due to acquisitions.

Domestic sales were $3,165.6 million for 2005, representing an increase of 15% as a result of higher shipments of Orthopaedic Implants and MedSurg Equipment and higher revenue from Physical Therapy Services. International sales were $1,705.9 million for 2005, representing an increase of 13% as a result of higher shipments of Orthopaedic Implants and MedSurg Equipment. The impact of foreign currency comparisons to the dollar value of international sales was favorable by $11.5 million for 2005. Excluding the impact of foreign currency, international sales increased 12% in 2005.

Worldwide sales of Orthopaedic Implants were $2,855.1 million for 2005, representing an increase of 11% as a result of higher shipments of reconstructive, trauma, spinal and micro implant systems; bone cement; and the bone growth factor OP-1. Excluding the impact of foreign currency, sales of Orthopaedic Implants increased 11% for the year.

Hip Implant Systems: Sales of hip implant systems increased 4% during the year, and also 4% excluding changes in foreign currency exchange rates, due to growth in the Trident hip system in Europe and the Pacific region and in Accolade cementless hip products and Restoration Modular Hip System revision hips in the United States, partially offset by lower sales of the Trident ceramic-on-ceramic hip system and hip fracture products in the United States.

Knee Implant Systems: Sales of knee implant systems increased 14% during the year, 13% excluding changes in foreign currency exchange rates, due to strong growth in the recently launched Triathlon Knee System in the United States, Europe and the Pacific region as well as the Scorpio knee system in Europe, Japan and the Pacific region.

Trauma Implant Systems: Sales of trauma implant systems increased 15% during the year, 16% excluding changes in foreign currency exchange rates, as a result of the full-scale launch of the Gamma3 Hip Fracture System in the United States, Japan and Europe in the second half of 2004. Strong growth in the Company's T2 Nailing System, both in the United States and internationally, also drove trauma sales growth in 2005.

Spinal Implant Systems: Sales of spinal implant systems increased 17% during the year, and also 17% excluding changes in foreign currency exchange rates, primarily due to strong sales growth of interbody devices in the United States led by sales of the recently launched AVS spacer products as well as solid worldwide growth in cervical and thoraco-lumbar product sales.

Micro Implant Systems: Sales of micro implant systems increased 12% during the year, and also 12% excluding changes in foreign currency exchange rates, as a result of strong worldwide sales of implant products for hand indications and solid domestic sales of products for neuro indications.

Worldwide sales of MedSurg Equipment were $1,753.8 million for 2005, representing an increase of 21% as a result of higher shipments of surgical equipment; surgical navigation systems; endoscopic, communications and digital imaging systems; as well as patient handling and emergency medical equipment. Excluding the impact of foreign currency, sales of MedSurg Equipment increased 20% for the year.

Surgical Equipment and Surgical Navigation Systems: Sales of surgical equipment and surgical navigation systems increased 16% during the year, and also 16% excluding changes in foreign currency exchange rates, due to strong worldwide sales growth in the System 5 heavy-duty powered systems, interventional pain products, SteriShield personal protection systems and surgical navigation products as well as strong sales growth in the Neptune operating waste management system in the United States.

Endoscopic, Communications and Digital Imaging Systems: Sales of endoscopic, communications and digital imaging systems increased 24% during the year, and also 24% excluding changes in foreign currency exchange rates, as a result of strong growth in medical video imaging equipment, led by growth of digital imaging equipment and the 1088 High Definition Camera, and strong growth in general surgery products in the United States, partially offset by slower growth in arthroscopy in the United States resulting from the discontinuance of allograft products during the year.

Patient Handling and Emergency Medical Equipment: Sales of patient handling and emergency medical equipment increased 23% during the year, 22% excluding changes in foreign currency exchange rates, due to strong sales growth in hospital and maternity beds and emergency medical equipment in the United States and solid growth in stretcher sales in the United States.

Physical Therapy Services revenues were $262.6 million for 2005, representing an increase of 7% with all of the growth coming from new physical therapy centers.

Cost of sales represented 35.2% of sales in 2005 compared with 35.4% in 2004. The lower cost of sales percentage in 2005 is partially due to increased average selling prices for the Company's products and lower excess and obsolete inventory costs associated with discontinued products partially offset by faster sales growth in the lower margin MedSurg Equipment segment and higher growth in royalty costs relative to sales growth.

Research, development and engineering expenses represented 5.7% of sales in 2005 compared with 5.0% in 2004. These expenses increased 33% in 2005 to $279.8 million. The higher spending level is the result of the Company's continued focus on new product development for anticipated future product launches and continued investments in new technologies, together with, beginning in the third quarter of 2004, spending associated with the continued development of products acquired from SpineCore. New product introductions in 2005 in the Orthopaedic Implants segment included X3 Polyethylene, the Company's next-generation highly crosslinked polyethylene featuring a higher level of strength and wear reduction in both hip and knee replacements, and the posterior-stabilized version of the Triathlon Knee System in the United States, Europe, Canada and the Pacific region. Within the MedSurg Equipment segment, new product introductions in 2005 included the Maestro drill which expanded the Company's line of micro powered instruments for spine; neurology; and ear, nose and throat applications.

Selling, general and administrative expenses increased 10% in 2005 and represented 37.2% of sales compared with 38.8% in 2004. The decrease in selling, general and administrative expenses as a percent of sales in 2005 is due to lower meeting costs and slower growth in advertising costs and insurance premiums relative to the Company's growth in net sales. These decreases are partially offset by an increase in sales commission expense as a result of the 14% growth in net sales in 2005 in addition to higher amortization expense associated with loaner instrument sets.

The purchased in-process research and development charge of $15.9 million recorded in the fourth quarter of 2005 relates to the acquisition of PlasmaSol, a private, development-stage company. At the date of the acquisition, the sterilization technology acquired had not yet been approved for sale by the U.S. Food and Drug Administration (FDA) and, therefore, had not yet reached technological feasibility. The purchase price of $17.5 million was preliminarily allocated to assets acquired primarily for deferred tax assets associated with acquired net operating losses and purchased in-process research and development based on their fair value at the date of acquisition. The purchased in-process research and development charge of $120.8 million recorded in the third quarter of 2004 relates to the acquisition of SpineCore, a private, development-stage company. At the date of the acquisition, the artificial lumbar and cervical spinal disc implant technologies acquired were in preliminary stages of clinical studies in the United States and had not yet reached technological feasibility. The upfront payment of $120.0 million, plus certain transaction costs, 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.

Interest expense, which is included in other income (expense), increased to $7.7 million in 2005 from $6.8 million in 2004, primarily as a result of increased borrowings in Europe to complete the repatriation of foreign earnings in the fourth quarter of 2005. Interest income, which is included in other income (expense), increased to $13.3 million in 2005 from $4.7 million in 2004, primarily due to increased cash and marketable securities balances throughout the year.

The effective income tax rate was 32.7% for the year ended December 31, 2005 and 35.0% for the year ended December 31, 2004. The reported effective income tax rate for 2005 reflects a charge of $27.4 million to recognize the income tax expense and related liability associated with the repatriation of $722 million of foreign earnings under the provisions of the American Jobs Creation Act completed in the fourth quarter. The reported effective income tax rate for 2005 also reflects the nondeductibility, for income tax purposes, of the $15.9 million purchased in-process research and development charge associated with the PlasmaSol acquisition. The reported effective income tax rate for the year ended December 31, 2004 reflects the nondeductibility, for income tax purposes, of the $120.8 million purchased in-process research and development charge associated with the SpineCore acquisition. Excluding the impact of income taxes on the repatriation of foreign earnings in 2005 and the impact of the purchased in-process research and development charges in 2005 and 2004, the Company's effective income tax rate was reduced to 29.5% in 2005 compared with 30.0% in 2004, primarily as a result of increased manufacturing in lower tax jurisdictions.

Net earnings in 2005 increased 45% to $675.2 million from $465.7 million in 2004; basic net earnings per share increased 44% to $1.67 in 2005 from $1.16 in 2004; and diluted net earnings per share increased 44% to $1.64 in 2005 from $1.14 in 2004.

Excluding the impacts of the charges to write off purchased in-process research and development in 2005 and 2004 and to recognize income tax expense associated with the repatriation of foreign earnings in 2005, adjusted net earnings increased 23% to $718.5 million in 2005 from $586.5 million in 2004. Adjusted basic net earnings per share increased 22% to $1.78 in 2005 from $1.46 in 2004, and adjusted diluted net earnings per share increased 22% to $1.75 in 2005 from $1.43 in 2004.

This adjusted financial measure does not replace the presentation of the Company's reported financial results stated under generally accepted accounting principles (GAAP). The Company has provided this supplemental non-GAAP financial measure because it provides meaningful information regarding the Company's results on a consistent and comparable basis for the periods presented. Management uses this non-GAAP financial measure for reviewing the operating results of its business segments and for analyzing potential future business trends in connection with its budget process. In addition, the Company believes investors will utilize this information to evaluate period-to-period results 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.

The reconciliation of this non-GAAP financial measure is as follows (in millions):

	2005	*2004*	*% Change*
Reported net earnings	$675.2	$465.7	45%
Purchased in-process research and development	15.9	120.8	(87)
Income taxes on repatriation of foreign earnings	27.4	–	–
Adjusted net earnings	$718.5	$586.5	23
Basic net earnings per share:			
Reported basic net earnings per share	$ 1.67	$ 1.16	44
Purchased in-process research and development	$ .04	$ .30	(87)
Income taxes on repatriation of foreign earnings	$ .07	–	–
Adjusted basic net earnings per share	$ 1.78	$ 1.46	22
Diluted net earnings per share:			
Reported diluted net earnings per share	$ 1.64	$ 1.14	44
Purchased in-process research and development	$ .04	$ .29	(86)
Income taxes on repatriation of foreign earnings	$ .07	–	–
Adjusted diluted net earnings per share	$ 1.75	$ 1.43	22

2004 Compared with 2003

Stryker Corporation's net sales increased 18% in 2004 to $4,262.3 million from $3,625.3 million in 2003. Net sales grew by 13% as a result of increased unit volume and changes in product mix, 3% due to changes in foreign currency exchange rates and 2% related to higher selling prices.

Domestic sales were $2,753.0 million for 2004, representing an increase of 18% as a result of higher shipments of Orthopaedic Implants and MedSurg Equipment and higher revenue from Physical Therapy Services. International sales were $1,509.3 million for 2004, representing an increase of 17% as a result of higher shipments of Orthopaedic Implants and MedSurg Equipment. The impact of foreign currency comparisons to the dollar value of international sales was favorable by $120.8 million for 2004. Excluding the impact of foreign currency, international sales increased 7% in 2004.

Worldwide sales of Orthopaedic Implants were $2,562.5 million for 2004, representing an increase of 17% as a result of higher shipments of reconstructive, trauma, spinal and micro implant systems; bone cement; and the bone growth factor OP-1. Excluding the impact of foreign currency, sales of Orthopaedic Implants increased 13% for the year.

Hip Implant Systems: Sales of hip implant systems increased 14% during the year, 9% excluding changes in foreign currency exchange rates. Sales growth for hip products slowed during 2004 primarily due to tougher comparables resulting from the launch of the Trident ceramic-on-ceramic hip system in the United States in the second quarter of 2003.

Knee Implant Systems: Sales of knee implant systems increased 18% during the year, 14% excluding changes in foreign currency exchange rates, due to strong growth in Scorpio and Duracon knee systems in the United States.

Trauma Implant Systems: Sales of trauma implant systems increased 17% during the year, 11% excluding changes in foreign currency exchange rates, as a result of the full-scale launch of the Gamma3 Hip Fracture System in the United States, Japan and Europe in 2004. Strong growth in the Company's T2 Nailing System, both in the United States and internationally, also drove trauma sales growth in 2004.

Spinal Implant Systems: Sales of spinal implant systems increased 18% during the year, 15% excluding changes in foreign currency exchange rates, primarily due to strong sales growth of cervical and interbody products in the United States.

Micro Implant Systems: Sales of micro implant systems increased 16% during the year, 12% excluding changes in foreign currency exchange rates, as a result of strong sales of implant products for hand indications and solid domestic sales of implant products for neuro indications.

Worldwide sales of MedSurg Equipment were $1,454.9 million for 2004, representing an increase of 20% as a result of higher shipments of surgical equipment; surgical navigation systems; endoscopic, communications and digital imaging systems; as well as patient handling and emergency medical equipment. Excluding the impact of foreign currency, sales of MedSurg Equipment increased 18% for the year.

Surgical Equipment and Surgical Navigation Systems: Sales of surgical equipment and surgical navigation systems increased 17% during the year, 15% excluding changes in foreign currency exchange rates, due to strong sales growth in heavy-duty powered instruments, interventional pain products and surgical navigation systems both domestically and in Europe.

Endoscopic, Communications and Digital Imaging Systems: Sales of endoscopic, communications and digital imaging systems increased 21% during the year, 20% excluding changes in foreign currency exchange rates, as a result of solid growth in digital imaging equipment and sports medicine products in the United States.

Patient Handling and Emergency Medical Equipment: Sales of patient handling and emergency medical equipment increased 25% during the year, 23% excluding changes in foreign currency exchange rates, due to strong growth in hospital beds and emergency medical equipment both domestically and in the international markets.

Physical Therapy Services revenues were $244.9 million for 2004, representing an increase of 10%, with 6% of the growth resulting from new physical therapy centers and 4% of the increase coming from higher revenues at existing centers.

Cost of sales represented 35.4% of sales in 2004 compared with 36.2% in 2003. The lower cost of sales percentage in 2004 is partially due to increased average selling prices for the Company's products and improved manufacturing efficiencies at several of the Company's manufacturing and distribution facilities, including its Mahwah, New Jersey, manufacturing and distribution facility, and lower purchase prices of raw materials, including cobalt chromium and titanium alloys.

Research, development and engineering expenses represented 5.0% of sales in both 2004 and 2003. These expenses increased 17% in 2004 to $211.0 million. The higher spending level is the result of final development spending in advance of the Company's product launches in 2004 and continued focus on new product development for anticipated future product launches, together with, beginning in the third quarter of 2004, spending associated with the continued development of products acquired from SpineCore. New product introductions in 2004 in the Orthopaedic Implants segment included the Restoration Modular Hip System in the United States and Europe; the Triathlon Knee System in the United States and Europe; the Scorpio NRG knee and CentPillar hip systems in Japan; a worldwide launch of the OASYS posterior cervical fixation system; and a full-scale launch of the Gamma3 Hip Fracture System in the United States, Japan and Europe. The Triathlon Knee System represents the Company's evolutionary design developed to more

closely reproduce natural knee motion and to provide mobility with stability through more than 150 degrees of flexion. Within the MedSurg Equipment segment, new product introductions in 2004 included a new video platform with the 1088 High Definition Camera, the first fully digital, high-definition, progressive-scan medical video camera, and the new M-Series stretcher, designed to fit the needs of acute care and specialty surgical care facilities.

Selling, general and administrative expenses increased 17% in 2004 and represented 38.8% of sales compared with 39.1% in 2003. The 17% increase in selling, general and administrative expenses is partially due to an increase in sales commission expense as a result of the 18% increase in net sales in 2004, increased meeting costs and higher amortization expense associated with loaner instrument sets. In addition, the Company incurred a $12.1 million increase in insurance costs during 2004 resulting from increased premiums charged by third-party insurers and its wholly owned captive insurance company established in 2003 as more fully described in *Other Matters.*

The purchased in-process research and development charge of $120.8 million recorded in the third quarter of 2004 relates to the acquisition of SpineCore.

Interest expense, which is included in other income (expense), declined to $6.8 million in 2004 from $22.6 million in 2003, primarily as a result of lower outstanding debt balances.

The effective income tax rate was 35.0% in 2004. The reported effective income tax rate for 2004 reflects the nondeductibility, for income tax purposes, of the purchased in-process research and development charge associated with the SpineCore acquisition. Excluding the effect of this nondeductible charge, the Company's effective income tax rate was reduced to 30.0% in 2004 compared with 30.5% in 2003, primarily as a result of increased manufacturing in lower tax jurisdictions.

Net earnings in 2004 increased 3% to $465.7 million from $453.5 million in 2003; basic net earnings per share increased 2% to $1.16 in 2004 from $1.14 in 2003; and diluted net earnings per share increased 3% to $1.14 in 2004 from $1.11 in 2003.

Excluding the impact of the $120.8 million purchased in-process research and development charge recorded in 2004, adjusted net earnings increased 29% to $586.5 million in 2004 from $453.5 million in 2003. Adjusted basic net earnings per share increased 28% to $1.46 in 2004 from $1.14 in 2003, and adjusted diluted net earnings per share increased 29% to $1.43 in 2004 from $1.11 in 2003.

The reconciliation of this non-GAAP financial measure, as previously described, is as follows (in millions):

	2004	*2003*	*% Change*
Reported net earnings	$465.7	$453.5	3%
Purchased in-process research and development	120.8	–	–
Adjusted net earnings	$586.5	$453.5	29
Basic net earnings per share:			
Reported basic net earnings per share	$ 1.16	$ 1.14	2
Purchased in-process research and development	$ .30	–	–
Adjusted basic net earnings per share	$ 1.46	$ 1.14	28
Diluted net earnings per share:			
Reported diluted net earnings per share	$ 1.14	$ 1.11	3
Purchased in-process research and development	$ .29	–	–
Adjusted diluted net earnings per share	$ 1.43	$ 1.11	29

Liquidity and Capital Resources

The Company's working capital at December 31, 2005 increased $592.2 million to $1,621.3 million from $1,029.1 million at December 31, 2004. The increase in working capital resulted from growth in the Company's overall business and the use of cash earnings to fund increases in accounts receivable, inventories and prepaid expenses. Accrued liabilities increased in 2005 as a result of the growth in the business, higher obligations for acquisitions, sales commissions, royalties, dividends and increases in other accrued liabilities. Accounts receivable days sales outstanding was 54 days at December 31, 2005 compared with 58 days at December 31, 2004. Days sales in inventory decreased 8 days to 114 days at December 31, 2005 from 122 days at December 31, 2004. The decrease in days sales outstanding and days sales in inventory at December 31, 2005 is primarily due to improved asset management.

The Company generated cash of $863.8 million from operations in 2005 compared with $593.3 million in 2004. The increase in cash from operations in 2005 compared with the prior year is primarily due to higher net earnings in 2005 and the elimination of amounts outstanding under the accounts receivable securitization facility representing an operating cash usage of $150.0 million in 2004 along with the improvements in days sales outstanding and days sales in inventory.

In 2005, the Company used cash of $271.7 million for capital expenditures, including $50.9 million for the expansion of the company's manufacturing facility in Lebanon, New Hampshire; $41.5 million related to the implementation of ERP systems at multiple manufacturing and distribution facilities; $27.3 million for the construction of the Company's new manufacturing facilities in Portage, Michigan; and $20.1 million for the Company's new manufacturing facility in Neuchâtel, Switzerland. In addition, the Company used cash of $59.7 million for acquisitions and $36.2 million for the payment of dividends; it also purchased and sold marketable securities. These securities, which are classified as available-for-sale investments in accordance with the provisions of Financial Accounting Standards Board (FASB) Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* totaled $565.3 million at December 31, 2005.

In the first quarter of 2005, the Company acquired eTrauma for approximately $50.0 million in cash plus certain transaction costs. The acquisition of eTrauma was accounted for using the purchase method of accounting. The results of operations for the acquired business are included in the Company's Consolidated Financial Statements from the date of the acquisition and did not materially impact the Company's reported operating results. Pro forma consolidated results of operations would not differ significantly as a result of the eTrauma acquisition.

The purchase price for eTrauma has been preliminarily allocated to the assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. Based on the preliminary purchase price allocation, $22.0 million was allocated to identifiable intangibles, to be amortized over their remaining lives of 5 to 8 years, and $31.6 million was allocated to goodwill. Immediately after the acquisition was consummated, management of the Company began to implement an integration plan to combine Stryker and eTrauma. In conjunction with the integration plan, the Company recorded additional purchase liabilities for severance and related costs of $0.3 million, which were included in the purchase price allocation.

The Company had $491.2 million in cash and cash equivalents and $565.3 million in marketable securities at December 31, 2005. The Company also had outstanding borrowings totaling $231.6 million at that date. Current maturities of long-term debt at December 31, 2005 were $47.4 million. The Company believes its cash on hand and marketable securities, 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; and required debt repayments.

In November 2005, the Company established a $1,000.0 million Unsecured Credit Facility, which replaced the previously outstanding $750.0 million Unsecured Credit Facility. The new facility, which expires in November 2010, includes a senior term loan with an original principal amount of € 190.0 million and a senior 5-year nonamortizing, revolving credit agreement with a maximum amount of $1,000.0 million, less any outstanding amount of the senior term loan. A total of € 190.0 million was drawn under the senior term loan to facilitate the repatriation of foreign earnings and remains outstanding at December 31, 2005.

Should additional funds be required, the Company had $842.1 million of additional borrowing capacity available under all of its existing credit facilities, including the Company's $1,000.0 million Unsecured Credit Facility. In addition, the Company had $200.0 million of eligible accounts receivable that could be sold through its accounts receivable securitization facility at December 31, 2005.

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					
	2006	*2007*	*2008*	*2009*	*2010*	*Thereafter*
Long-term debt	$ 47.4	$ 48.2	$ 47.3	$ 47.3	$ 41.4	$ 0.0
Operating leases	51.2	42.9	35.4	26.0	17.1	48.4
Unconditional purchase obligations	165.7	0.0	0.0	0.0	0.0	0.0

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

		Amount of Commitment Expiration Per Period	
	Total Amount Committed	Less than 1 year	In excess of 1 year
Unsecured revolving credit agreement and other lines of credit	$842.1	$112.8	$729.3

Critical Accounting Policies

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.

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, with new products and surgical procedures being 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.

Income Taxes: The Company operates in multiple tax jurisdictions both inside and outside the United States. Accordingly, management must determine the appropriate allocation of income to each of these jurisdictions. Tax audits associated with the

allocation of this income and other complex issues, including inventory transfer pricing 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 tax rates. Because tax adjustments in certain jurisdictions can be significant, the Company records accruals representing management's best estimate of the probable resolution of these matters. These income tax accruals are included within the income taxes liability in the consolidated balance sheets. To the extent additional information becomes available, such accruals are adjusted to reflect the revised estimated probable outcome.

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 changes in foreign currency exchange rates or weak economic conditions in foreign markets. The Company's operating results are primarily exposed to changes in exchange rates among the United States dollar and the Japanese yen and European currencies, in particular the euro and the British pound. When the United States dollar weakens against foreign currencies, the dollar value of sales denominated in foreign currencies increases. When the United States dollar strengthens, the opposite situation occurs. The Company manufactures its products in the United States, France, Germany, Ireland, Switzerland, Canada and Puerto Rico and incurs the costs to manufacture in the applicable local currencies. This worldwide deployment of factories 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. 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.

At December 31, 2005, the Company had outstanding forward currency exchange contracts to purchase $131.6 million and sell $92.1 million of various currencies (principally United States dollars and euros) with maturities ranging principally from 30 to 180 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 exchange rates for these currencies would change the December 31, 2005 fair value by approximately $0.2 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 currencies that are deferred and recorded as a separate component of shareholders' equity. For the year ended December 31, 2005, the weakening of foreign currencies relative to the U.S. dollar decreased the value of these investments in net assets, and the related deferred gain in shareholders' equity, by $192.9 million to $17.0 million.

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.

In December 2003, the Company announced that it and its subsidiary Physiotherapy Associates, Inc., received a subpoena from the United States Attorney's Office in Boston, Massachusetts, in connection with a Department of Justice investigation of Physiotherapy Associates' billing and coding practices. In March 2005, the Company announced that it received a subpoena from the United States Department of Justice requesting documents for the period January 2002 through the present 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 Company is fully cooperating with the Department of Justice regarding these matters.

In December 2004, the FASB issued a revision to Statement No. 123, *Share-Based Payment.* This revision supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and its related implementation guidance. On April 14, 2005, the United States Securities and Exchange Commission adopted a new rule allowing companies to delay the required adoption date of the revised Statement to their first fiscal year beginning after June 15, 2005. Based on this ruling, the Company will adopt the provisions of the revised Statement effective January 1, 2006 rather than July 1, 2005 as initially required by the revised Statement. The revised Statement requires companies to recognize the cost of stock options based on the grant-date fair value determined under their employee stock option plans over the period during which the recipient is required to provide services in exchange for the options, typically the vesting period. The Company plans to adopt the provisions of the revised Statement using the modified-retrospective transition method provided in the revised Statement. Under this method, the Company will restate all prior periods presented on a consistent basis, based on the pro forma expense previously disclosed under Statement No. 123. As a result, the Company's net earnings for 2005, 2004 and 2003 will be reduced by $31.6 million, $25.7 million and $19.1 million, respectively, or $.08, $.06, and $.04 per diluted share, respectively. The Company does not believe the adoption of the revised Statement will have a material impact on the trend of net earnings or net earnings per share.

Forward-Looking Statements

This report may contain 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: pricing pressures generally, including cost-containment measures that could adversely affect the price of or demand for the Company's products; regulatory actions; unanticipated issues arising in connection with clinical studies and eventual U.S. FDA approval of additional OP-1 applications, the FlexiCore and CerviCore spinal implant products or other new product introductions; changes in reimbursement levels from third-party payors; a significant increase in product liability claims; changes in economic conditions that adversely affect the level of demand for the Company's products; changes in foreign exchange markets; changes in financial markets; and changes in the competitive environment.

While the Company believes that 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.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Shareholders of Stryker Corporation:

The management of Stryker Corporation is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Stryker Corporation's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Stryker Corporation's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework.* Based on that assessment, management believes that, as of December 31, 2005, the Company's internal control over financial reporting is effective.

Stryker Corporation's independent registered public accounting firm, Ernst &Young LLP, has issued an audit report on our assessment of the Company's internal control over financial reporting. This report appears on the following page.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Shareholders of Stryker Corporation:

We have audited management's assessment, included in the accompanying Management Report on Internal Control over Financial Reporting, that Stryker Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Stryker Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Stryker Corporation and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005, and our report dated February 3, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

Grand Rapids, Michigan
February 3, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON 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, 2005 and 2004, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Stryker Corporation's internal control over financial reporting as of December 31, 2005, 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 3, 2006 expressed an unqualified opinion thereon.

Grand Rapids, Michigan
February 3, 2006

CONSOLIDATED BALANCE SHEETS Stryker Corporation and Subsidiaries

(in millions, except per share amounts)

	December 31	
	2005	*2004*
ASSETS		
Current Assets		
Cash and cash equivalents	$ 491.2	$ 349.4
Marketable securities	565.3	–
Accounts receivable, less allowance of $53.4 ($54.7 in 2004)	770.3	751.1
Inventories	563.5	552.5
Deferred income taxes	383.1	407.5
Prepaid expenses and other current assets	96.7	82.1
Total current assets	2,870.1	2,142.6
Property, Plant and Equipment		
Land, buildings and improvements	559.4	471.9
Machinery and equipment	843.1	752.8
	1,402.5	1,224.7
Less allowance for depreciation	571.5	524.2
	831.0	700.5
Other Assets		
Goodwill	513.2	506.3
Other intangibles, less accumulated amortization of $237.5 ($200.7 in 2004)	409.7	456.9
Loaner instrumentation, less accumulated amortization of $422.3 ($375.7 in 2004)	245.6	202.4
Deferred income taxes	42.7	38.6
Other	31.8	36.5
	1,243.0	1,240.7
	$4,944.1	$4,083.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 206.5	$ 214.5
Accrued compensation	252.9	244.0
Income taxes	207.3	187.0
Accrued expenses and other liabilities	534.7	458.7
Current maturities of long-term debt	47.4	9.3
Total current liabilities	1,248.8	1,113.5
Long-Term Debt, Excluding Current Maturities	184.2	0.7
Other Liabilities	259.3	217.6
Shareholders' Equity		
Common stock, $.10 par value:		
Authorized—1,000.0 shares		
Outstanding—405.2 shares (402.5 in 2004)	40.5	40.3
Additional paid-in capital	279.5	218.1
Retained earnings	2,928.2	2,297.6
Deferred stock-based compensation	(1.6)	(2.3)
Accumulated other comprehensive gain	5.2	198.3
Total shareholders' equity	3,251.8	2,752.0
	$4,944.1	$4,083.8

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EARNINGS Stryker Corporation and Subsidiaries

(in millions, except per share amounts)

	December 31		
	2005	*2004*	*2003*
Net sales	$4,871.5	$4,262.3	$3,625.3
Cost of sales	1,713.9	1,510.1	1,312.4
Gross profit	3,157.6	2,752.2	2,312.9
Research, development and engineering expenses	279.8	211.0	180.2
Selling, general and administrative expenses	1,814.3	1,652.2	1,416.0
Intangibles amortization	48.8	47.8	45.4
Purchased in-process research and development	15.9	120.8	–
	2,158.8	2,031.8	1,641.6
Operating income	998.8	720.4	671.3
Other income (expense)	4.5	(3.4)	(18.8)
Earnings before income taxes	1,003.3	717.0	652.5
Income taxes	328.1	251.3	199.0
Net earnings	$ 675.2	$ 465.7	$ 453.5
Net earnings per share of common stock:			
Basic	$ 1.67	$ 1.16	$ 1.14
Diluted	$ 1.64	$ 1.14	$ 1.11

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY Stryker Corporation and Subsidiaries

(in millions, except per share amounts)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Gain (Loss)	Total
Balances at January 1, 2003	$ 39.6	$ 100.9	$ 1,442.6	$ 0.0	$ (84.9)	$ 1,498.2
Net earnings for 2003	–	–	453.5	–	–	453.5
Unrealized losses on securities of $0.4, net of $0.1 income tax benefit	–	–	–	–	(0.3)	(0.3)
Unrealized gains related to cash flow hedges	–	–	–	–	9.2	9.2
Unfunded pension losses, net of $0.2 income tax benefit	–	–	–	–	(0.7)	(0.7)
Foreign currency translation adjustments	–	–	–	–	176.3	176.3
Comprehensive earnings for 2003	–	–	–	–	–	638.0
Issuance of 3.1 shares of common stock under stock option and benefit plans, including $35.7 income tax benefit	0.3	45.9	–	–	–	46.2
Issuance of 0.1 shares of restricted stock	–	3.4	–	(3.4)	–	0.0
Amortization of deferred stock-based compensation	–	–	–	0.4	–	0.4
Cash dividend declared of $.07 per share of common stock	–	–	(28.0)	–	–	(28.0)
Balances at December 31, 2003	39.9	150.2	1,868.1	(3.0)	99.6	2,154.8
Net earnings for 2004	–	–	465.7	–	–	465.7
Unrealized gains on securities of $0.4, net of $0.1 income tax expense	–	–	–	–	0.3	0.3
Unfunded pension losses, net of $0.6 income tax benefit	–	–	–	–	(3.8)	(3.8)
Foreign currency translation adjustments	–	–	–	–	102.2	102.2
Comprehensive earnings for 2004	–	–	–	–	–	564.4
Issuance of 3.1 shares of common stock under stock option and benefit plans, including $39.8 income tax benefit	0.4	67.9	–	–	–	68.3
Amortization of deferred stock-based compensation	–	–	–	0.7	–	0.7
Cash dividend declared of $.09 per share of common stock	–	–	(36.2)	–	–	(36.2)
Balances at December 31, 2004	40.3	218.1	2,297.6	(2.3)	198.3	2,752.0
Net earnings for 2005	–	–	675.2	–	–	675.2
Unrealized gains on securities of $1.0, net of $0.4 income tax expense	–	–	–	–	0.6	0.6
Unfunded pension losses, net of $1.2 income tax benefit	–	–	–	–	(0.8)	(0.8)
Foreign currency translation adjustments	–	–	–	–	(192.9)	(192.9)
Comprehensive earnings for 2005	–	–	–	–	–	482.1
Issuance of 2.7 shares of common stock under stock option and benefit plans, including $35.0 income tax benefit	0.2	61.4	–	–	–	61.6
Amortization of deferred stock-based compensation	–	–	–	0.7	–	0.7
Cash dividend declared of $.11 per share of common stock	–	–	(44.6)	–	–	(44.6)
Balances at December 31, 2005	$ 40.5	$ 279.5	$ 2,928.2	$ (1.6)	$ 5.2	$ 3,251.8

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS Stryker Corporation and Subsidiaries

(in millions)

	Years ended December 31		
	2005	*2004*	*2003*
Operating Activities			
Net earnings	$ 675.2	$ 465.7	$ 453.5
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	106.1	102.7	97.2
Amortization	183.8	148.2	132.5
Income tax benefit from exercise of stock options	35.0	39.8	35.7
Purchased in-process research and development	15.9	120.8	–
Payments of restructuring and acquisition-related liabilities	–	(3.8)	(14.7)
Provision for losses on accounts receivable	9.0	18.4	15.9
Deferred income tax expense (credit)	20.4	(65.5)	(32.9)
Other	7.8	10.2	8.7
Changes in operating assets and liabilities, net of effects of acquisitions:			
Proceeds from (reductions of) accounts receivable securitization	–	(150.0)	20.0
Accounts receivable	(71.1)	(93.5)	(75.9)
Inventories	(39.7)	(63.0)	(5.8)
Loaner instrumentation	(189.4)	(161.4)	(90.3)
Accounts payable	(2.5)	68.3	24.6
Payments of acquisition purchase liabilities	(1.6)	(0.2)	(0.8)
Accrued expenses	75.7	139.0	77.3
Income taxes	22.6	40.0	3.9
Other	16.6	(22.4)	(0.4)
Net cash provided by operating activities	863.8	593.3	648.5
Investing Activities			
Acquisitions, net of cash acquired	(59.7)	(144.7)	(10.8)
Purchases of marketable securities	(1,543.4)	–	–
Proceeds from sales of marketable securities	968.4	–	–
Purchases of property, plant and equipment	(271.7)	(187.8)	(144.5)
Proceeds from sales of property, plant and equipment	3.4	8.5	3.7
Net cash used in investing activities	(903.0)	(324.0)	(151.6)
Financing Activities			
Proceeds from borrowings	586.3	538.6	664.5
Payments on borrowings	(364.8)	(556.0)	(1,144.6)
Dividends paid	(36.2)	(28.0)	(23.7)
Proceeds from exercise of stock options	30.4	37.3	26.9
Other	(13.8)	18.7	0.6
Net cash provided by (used in) financing activities	201.9	10.6	(476.3)
Effect of exchange rate changes on cash and cash equivalents	(20.9)	3.6	7.5
Increase in cash and cash equivalents	141.8	283.5	28.1
Cash and cash equivalents at beginning of year	349.4	65.9	37.8
Cash and cash equivalents at end of year	$ 491.2	$ 349.4	$ 65.9

See accompanying notes to Consolidated Financial Statements.

NOTE 1
SIGNIFICANT ACCOUNTING POLICIES

Business: Stryker Corporation (the Company or Stryker) develops, manufactures and markets 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. Stryker also provides outpatient physical therapy services in the United States.

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

Revenue Recognition: A significant portion of the Company's Orthopaedic Implants revenue is generated from consigned inventory maintained at hospitals or with field representatives. For these products, revenue is recognized at the time the Company receives appropriate notification that the product has been used or implanted. 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. For its Physical Therapy Services line of business, the Company records revenue when the services have been rendered. 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.

Use of Estimates: The preparation of these Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States 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.

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 United States 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.

Cash Equivalents, Marketable Securities and Other Investments: Cash equivalents are highly liquid investments with a maturity of 3 months or less when purchased. Marketable securities consist of marketable debt securities and certificates of deposit classified as available-for-sale. Other investments, included within other assets in the consolidated balance sheets, consist of mutual funds, classified as trading, that are acquired to offset changes in certain liabilities related to deferred compensation arrangements and are expected to be used to settle these liabilities. In 2004, other investments also included marketable equity securities classified as available-for-sale.

The Company's marketable securities and other investments are stated at fair value based on quoted market prices. Adjustments to the fair value of marketable securities and other investments 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. Adjustments to the fair value of other investments that are classified as trading are recorded in earnings as offsets to the related changes in liabilities under deferred compensation arrangements. The amortized cost of marketable debt securities classified as available-for-sale is adjusted for amortization of premiums and discounts to maturity computed under the effective interest method. Such amortization is included in other income (expense). In addition, interest and realized gains and losses are included in other income (expense). The cost of securities sold is based on the specific identification method.

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 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 $200.0 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, 2005 and 2004. Accounts receivable sold are reflected in the consolidated balance sheet as reductions of accounts receivable in the period sold. The amount of receivables available to be sold is subject to change monthly, based on the level of defined eligible receivables less defined customary reductions for servicing, dilution and loss reserves. The Company's retained interest in accounts receivable held by SFC, which is in the form of a subordinated note, represents an overcollateralization of any undivided interest sold. This retained interest totaled $347.1 million and $320.3 million at December 31, 2005 and 2004, respectively. Discount expense associated with the securitization facility, including the conduit's financing cost of issuing its commercial paper, was $0.7 million in 2005, $1.3 million in 2004 and $2.6 million in 2003 and is included in selling, general and administrative expenses.

Inventories: Inventories are stated at the lower of cost or market. Cost for approximately 80% 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, with new products and surgical procedures being introduced on an ongoing basis. Such marketplace changes may cause the Company's products to become obsolete. The Company makes estimates regarding the future recoverability of the cost 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, and 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 14 years for other intangible 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.

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 tax bases of assets and liabilities and are measured using the enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred income tax expense (credit) represents the change in net deferred tax assets and liabilities during the year.

The Company operates in multiple tax jurisdictions both inside and outside the United States and tax authorities in these jurisdictions regularly perform audits of the Company's 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. Tax audits associated with the allocation of this income and other complex issues, including inventory transfer pricing 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 tax rates. Because tax adjustments in certain jurisdictions can be significant, the Company records accruals representing management's best estimate of the probable resolution of these matters. These income tax accruals are included within the income taxes liability in the consolidated balance sheets. To the extent additional information becomes available, such accruals are adjusted to reflect the revised estimated probable outcome.

Derivative Financial Instruments: The Company uses derivative financial instruments to manage the economic impact of fluctuations in currency exchange rates. The Company enters into forward currency exchange contracts to manage these economic risks. From 1998 through December 2003, the Company entered into interest rate swap contracts with various maturity dates to manage the economic impact of fluctuations in interest rates.

The Company follows the provisions of Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by Statements No. 137 and No. 138, in accounting for its derivative financial instruments. The Statements require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the changes in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in accumulated other comprehensive gain (loss) until the hedged item is recognized in earnings (see Note 2).

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, intellectual property and other matters. The potential future outcomes of these matters are outside of management's complete 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 outside counsel, previous settlement experience and settlement strategies.

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 Losses	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Gain (Loss)
Balances at January 1, 2004	$ (1.0)	$ (7.1)	$ 107.7	$ 99.6
Other comprehensive gain (loss) for 2004	0.3	(3.8)	102.2	98.7
Balances at December 31, 2004	(0.7)	(10.9)	209.9	198.3
Other comprehensive gain (loss) for 2005	0.6	(0.8)	(192.9)	(193.1)
Balances at December 31, 2005	$ (0.1)	$ (11.7)	$ 17.0	$ 5.2

Stock Options: At December 31, 2005, the Company has key employee and director stock option plans, which are described more fully in Note 8. The Company follows Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* in accounting for its stock option plans. Under Opinion No. 25, no compensation expense is recognized because the exercise price of the Company's stock options equals the market price of the underlying stock on the measurement date (date of grant). Had compensation expense for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FASB Statement No. 123, *Accounting for Stock-Based Compensation,* the Company's net earnings and net earnings per share would have been as follows (in millions):

	2005	*2004*	*2003*
Net earnings:			
As reported	$675.2	$465.7	$453.5
Deduct: Compensation expense—fair value method	(31.6)	(25.7)	(19.1)
Pro forma	$643.6	$440.0	$434.4
Basic net earnings per share:			
As reported	$ 1.67	$ 1.16	$ 1.14
Pro forma	$ 1.59	$ 1.10	$ 1.09
Diluted net earnings per share:			
As reported	$ 1.64	$ 1.14	$ 1.11
Pro forma	$ 1.57	$ 1.08	$ 1.07

The weighted-average fair value per share of options granted during 2005, 2004 and 2003, estimated on the date of grant using the Black-Scholes option pricing model, was $17.45, $16.83 and $15.19, respectively. The fair value of options granted was estimated on the date of grant using the following assumptions:

	2005	*2004*	*2003*
Risk-free interest rate	2.87%	1.94%	2.27%
Expected dividend yield	0.19%	0.19%	0.18%
Expected stock price volatility	30.7%	34.3%	35.8%
Expected option life	6.5 years	6.5 years	6.5 years

In December 2004, the FASB issued a revision to Statement No. 123, *Share-Based Payment.* This revision supersedes APB Opinion No. 25 and its related implementation guidance. On April 14, 2005, the United States Securities and Exchange Commission adopted a new rule allowing companies to delay the required adoption date of the revised Statement to their first fiscal year beginning after June 15, 2005. Based on this ruling, the Company will adopt the provisions of the revised Statement effective January 1, 2006 rather than July 1, 2005 as initially required by the revised Statement. The revised Statement requires companies to recognize the cost of stock options based on the grant-date fair value determined under their employee stock option plans over the period during which the recipient is required to provide services in exchange for the options, typically the vesting period. The Company plans to adopt the provisions of the revised Statement using the modified-retrospective transition method provided in the revised Statement. Under this method, the Company will restate all prior periods presented on a consistent basis, based on the pro forma expense previously disclosed under Statement No. 123. The pro forma effect of adopting this Statement is disclosed above and is not expected to have a material impact on the trend of net earnings or net earnings per share.

Reclassifications: Certain prior year amounts have been reclassified to conform with the presentation used in 2005.

NOTE 2
FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

	Cost	Gross Unrealized Losses	Estimated Fair Value
At December 31, 2005:			
Available-for-sale securities:			
Marketable securities:			
Municipal debt securities	$468.1	$ (0.1)	$468.0
U.S. Government and Agency debt securities	89.3	–	89.3
Certificates of deposit	8.0	–	8.0
Total available-for-sale securities	565.4	(0.1)	565.3
Trading securities:			
Mutual funds	26.1	–	26.1
Total investments	$591.5	$ (0.1)	$591.4
At December 31, 2004:			
Available-for-sale securities:			
Equity securities	$ 2.6	$ (1.1)	$ 1.5
Trading securities:			
Mutual funds	25.3	–	25.3
Total investments	$ 27.9	$ (1.1)	$ 26.8

The net carrying value and estimated fair value of available-for-sale debt securities at December 31, 2005, by contractual maturity, are as follows (in millions):

	Cost	Estimated Fair Value
At December 31, 2005:		
Due in one year or less	$ 74.9	$ 74.9
Due after one year through three years	187.6	187.5
Due after three years	294.9	294.9
	$557.4	$557.3

Interest income, which is included in other income (expense), totaled $13.3 million in 2005, $4.7 million in 2004 and $3.1 million in 2003.

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 relate principally 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 marked-to-market each period with resulting gains (losses) included in other income (expense) in the consolidated statements of earnings.

At December 31, 2005, the Company had outstanding forward currency exchange contracts to purchase $131.6 million and sell $92.1 million of various currencies (principally United States dollars and euros) with maturities ranging from 30 to 180 days. At December 31, 2004, the Company had outstanding forward currency exchange contracts to purchase $137.7 million and sell $173.1 million of various currencies (principally United States dollars and euros) with maturities ranging principally from 30 to 180 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, 2005, 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.

From 1998 through 2003, the Company entered into interest rate swap agreements that effectively converted a portion of its variable-rate borrowings to a fixed-rate basis, thus reducing the impact of changes in interest rates on interest expense during that period. The swap agreements fixed the Company's base rate on $250.0 million of its variable-rate borrowings during 2003 at an average rate of 5.58%. Pursuant to FASB Statement No. 133, as amended, the Company recognized a gain of $9.2 million attributable to changes in the fair value of interest rate swap agreements as a component of accumulated other comprehensive gain (loss) in 2003. Interest rate differentials paid as a result of interest rate swaps were recognized as an adjustment of interest expense related to the designated borrowings.

Prior to 2004, the Company had used yen-denominated floating-rate borrowings to protect a portion of the value of its investment in its subsidiary in Japan. All yen-denominated borrowings previously outstanding were fully repaid during 2003. Realized and unrealized gains and losses from this hedge were not included in the consolidated statements of earnings, but were recorded as foreign currency translation adjustments within accumulated other comprehensive gain (loss) in shareholders' equity. A net loss of $2.1 million attributable to the yen-denominated floating-rate borrowings hedge was recorded as a foreign currency translation adjustment in 2003.

NOTE 3
INVENTORIES

Inventories are summarized as follows (in millions):

	December 31	
	2005	*2004*
Finished goods	$414.9	$429.1
Work-in-process	65.4	53.4
Raw material	87.0	75.1
FIFO cost	567.3	557.6
Less LIFO reserve	3.8	5.1
	$563.5	$552.5

NOTE 4
ACQUISITIONS

In the fourth quarter of 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 approximately $17.5 million including an upfront cash payment plus the assumption of certain liabilities. The results of operations for PlasmaSol are included in the Company's Consolidated Financial Statements from the date of the acquisition and did not materially impact the Company's reported operating results. Pro forma consolidated results of operations would not differ significantly as a result of the PlasmaSol acquisition.

The purchase price has been allocated to assets acquired primarily for deferred 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. The amount of the purchase price allocated to purchased in-process research and development resulted in a charge of $15.9 million, or $.04 per diluted share, against the Company's 2005 operating results. At the date of acquisition, the sterilization technology acquired had not yet been approved for sale by the U.S. Food and Drug Administration (FDA) and, therefore, 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.

In the first quarter of 2005, the Company acquired eTrauma.com Corp. (eTrauma) for approximately $50.0 million in cash plus certain transaction costs. The acquisition expanded the Company's digital imaging equipment product offerings within its MedSurg Equipment segment by adding eTrauma's proprietary Picture Archive and Communications Systems (PACS) image management and viewing software. The acquisition of eTrauma was accounted for using the purchase method of accounting. The results of operations for the acquired business are included in the Company's Consolidated Financial Statements from the date of the acquisition and did not materially impact the Company's reported operating results. Pro forma consolidated results of operations would not differ significantly as a result of the eTrauma acquisition.

The purchase price has been preliminarily allocated to the assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. Based on the preliminary purchase price allocation, $22.0 million was allocated to identifiable intangibles, to be amortized over their remaining lives of 5 to 8 years, and $31.6 million was allocated to goodwill, which is not deductible for income tax purposes in the United States. Immediately after the acquisition was consummated, management of the Company began to implement an integration plan to combine Stryker and eTrauma. In conjunction with the integration plan, the Company recorded additional purchase liabilities for severance and related costs of $0.3 million, which were included in the purchase price allocation.

In the third quarter of 2004, the Company completed its acquisition, by merger, of all of the outstanding stock of SpineCore, Inc. (SpineCore), for an upfront payment of $120.0 million in cash plus certain transaction costs. The acquisition of SpineCore, a developer of artificial lumbar and cervical spinal disc implant technologies, is expected to enhance the Company's presence in the spinal implant market, an important growth area within its Orthopaedic Implants segment. SpineCore's operating results are included in the Company's Consolidated Financial Statements from the date of the acquisition and are not material to the Company's operating results. Pro forma consolidated results of operations would not differ significantly as a result of the SpineCore acquisition.

The purchase price has been 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 $120.8 million, or $.29 per diluted share, against the Company's 2004 operating results. At the date of the transaction, the spinal implant technologies acquired were in preliminary stages of clinical studies in the United States and 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 include potential milestone and royalty payments of up to an additional $240.0 million upon commercialization of SpineCore's products in the United States, which is not expected to occur before 2008.

NOTE 5
GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the net carrying amount of goodwill by segment for the years ended December 31, 2005 and 2004 are as follows (in millions):

	Orthopaedic Implants	MedSurg Equipment	Other	Total
Balances as of January 1, 2004	$455.2	$ 18.4	$ 19.8	$493.4
Goodwill acquired	–	–	0.6	0.6
Foreign currency translation effects	14.2	0.4	–	14.6
Other	–	–	(2.3)	(2.3)
Balances as of December 31, 2004	469.4	18.8	18.1	506.3
Goodwill acquired	–	31.6	3.0	34.6
Foreign currency translation effects	(25.2)	(0.3)	–	(25.5)
Other	–	–	(2.2)	(2.2)
Balances as of December 31, 2005	$444.2	$ 50.1	$ 18.9	$513.2

In the fourth quarters of 2005, 2004 and 2003, 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, 2005:			
Amortized intangible assets:			
Developed technology	$244.9	$ 84.7	$160.2
Customer relationships	163.8	32.8	131.0
Patents	169.7	78.7	91.0
Trademarks	35.7	18.2	17.5
Other	33.1	23.1	10.0
	$647.2	$237.5	$409.7
At December 31, 2004:			
Amortized intangible assets:			
Developed technology	$248.8	$ 75.5	$173.3
Customer relationships	168.5	29.1	139.4
Patents	170.0	57.1	112.9
Trademarks	35.4	17.2	18.2
Other	34.9	21.8	13.1
	$657.6	$200.7	$456.9

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

2006	$39.8
2007	$39.0
2008	$38.2
2009	$37.4
2010	$30.4

In 2003, the Company recorded a $6.5 million charge related to a trademark impairment resulting from a branding initiative adopted by the Company in that period. The branding initiative is intended to improve the Company's customers' and other stakeholders' overall awareness of Stryker's capabilities. The charge reduced the book value of a trademark within the Orthopaedic Implants segment to its fair value as determined by using a discounted cash flow model. The charge is included in intangibles amortization in the 2003 consolidated statement of earnings.

NOTE 6
RESTRUCTURING AND ACQUISITION-RELATED LIABILITIES

The following table provides a rollforward of remaining liabilities, included within accrued expenses and other liabilities in the consolidated balance sheets, associated with business acquisition purchase liabilities and restructuring and acquisition-related charges recorded by the Company in prior years (in millions):

	Distributor Conversions	Severance & Related Costs	Facility Closures and Contractual Obligations	Total
Balances at January 1, 2004	$ 2.7	$ 5.0	$ 0.3	$ 8.0
Payments	(0.2)	(3.8)	–	(4.0)
Adjustments	–	(1.2)	(0.3)	(1.5)
Balances at December 31, 2004	2.5	0.0	$ 0.0	2.5
Additions from business acquisition	–	0.3		0.3
Payments	(1.3)	(0.3)		(1.6)
Balances at December 31, 2005	$ 1.2	$ 0.0		$ 1.2

During 2004, the Company reviewed its business acquisition purchase liabilities and determined certain of those obligations were no longer required. These adjustments were reflected as reductions in other intangible assets in accordance with the purchase method of accounting.

NOTE 7
LONG-TERM DEBT

Long-term debt is summarized as follows (in millions):

	December 31	
	2005	*2004*
Senior term loan	$224.8	$ 0.0
Other	6.8	10.0
	231.6	10.0
Less current maturities	47.4	9.3
	$184.2	$ 0.7

In November 2005, the Company established a $1,000.0 million Unsecured Credit Facility, which replaced the previously outstanding $750.0 million Unsecured Credit Facility. The new facility, which expires in November 2010, includes a senior term loan with a principal amount of € 190.0 million and a senior 5-year nonamortizing, revolving credit agreement with a maximum amount of $1,000.0 million, less any outstanding amount under the senior term loan. 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. A total of € 190.0 million was drawn under the senior term loan to facilitate the repatriation of foreign earnings and remains outstanding at December 31, 2005.

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. The senior term loan bears interest at a base rate, as defined, plus an applicable margin ranging from 0.16% to 0.625%, depending on the Company's debt rating.

During 2005, the weighted average interest rate, excluding required fees, for all borrowings under the current and previously existing credit and term loan facilities was 2.7%. 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, 2005. 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.

Maturities of debt for the five years succeeding 2005 are: 2006 - $47.4 million; 2007 - $48.2 million; 2008 - $47.3 million; 2009 - $47.3 million; and 2010 - $41.4 million.

The carrying amounts of the Company's long-term 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 $8.1 million in 2005, $6.0 million in 2004 and $22.9 million in 2003; these amounts approximate interest expense, which is included in other income (expense).

NOTE 8
CAPITAL STOCK

On April 20, 2004, the Company's shareholders approved an amendment to Section A of Article III of the Company's Restated Articles of Incorporation to increase its authorized shares of common stock to 1 billion from 500 million shares.

On April 20, 2004, the Company's Board of Directors approved a two-for-one stock split, effective May 14, 2004, for shareholders of record on May 3, 2004. All share and per share data have been adjusted to reflect the stock split as though it had occurred at the beginning of all periods presented.

The Company has key employee and director stock option plans under which options are granted at an exercise price not less than 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 (in millions, except per share amounts):

	Shares	Weighted-Average Exercise Price
Options outstanding at January 1, 2003	24.7	$15.22
Granted	3.8	38.83
Canceled	(0.4)	21.16
Exercised	(3.5)	7.78
Options outstanding at December 31, 2003	24.6	19.79
Granted	3.3	45.23
Canceled	(0.7)	29.14
Exercised	(3.2)	11.61
Options outstanding at December 31, 2004	24.0	24.17
Granted	3.4	48.27
Canceled	(0.4)	37.37
Exercised	(2.8)	11.33
Options outstanding at December 31, 2005	24.2	$28.78
Price range $5.50 - $10.00	1.8	$ 7.46
Price range $10.01 - $15.00	2.5	12.14
Price range $15.01 - $20.00	3.7	16.21
Price range $20.01 - $25.00	2.9	23.30
Price range $25.01 - $30.00	3.4	26.45
Price range $30.01 - $40.00	3.4	38.83
Price range $40.01 - $48.27	6.5	46.80
Options outstanding at December 31, 2005	24.2	$28.78

Options outstanding at December 31, 2005 had a weighted-average remaining contractual life of 6.1 years. Options reserved for future grants were 10.1 million and 13.1 million at December 31, 2005 and 2004, respectively.

Exercise prices for options outstanding as of December 31, 2005 ranged from $5.50 to $48.27. A summary of shares exercisable follows (in millions, except per share amounts):

	Shares	Weighted-Average Exercise Price
Price range $5.50 - $10.00	1.8	$ 7.46
Price range $10.01 - $15.00	2.5	12.14
Price range $15.01 - $20.00	3.7	16.21
Price range $20.01 - $25.00	2.4	23.29
Price range $25.01 - $30.00	2.0	26.45
Price range $30.01 - $40.00	1.4	38.83
Price range $40.01 - $48.27	0.6	45.28
Shares exercisable at December 31, 2005	14.4	$20.45

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

During the second quarter of 2003, the Company issued 0.1 million shares of restricted stock to its newly appointed President and Chief Operating Officer. The stock vests ratably on the first five anniversary dates of the grant, provided that the recipient is still employed by the Company. The aggregate market value of the restricted stock at the date of issuance of $3.4 million, as measured at the quoted price of the Company's common stock, has been recorded as deferred stock-based compensation, a separate component of shareholders' equity, and is being amortized over the 5-year vesting period.

NOTE 9
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):

	2005	*2004*	*2003*
Net earnings	$675.2	$465.7	$453.5
Weighted-average shares outstanding for basic net earnings per share	403.7	401.2	397.8
Effect of dilutive employee stock options	7.9	9.1	9.0
Adjusted weighted-average shares outstanding for diluted net earnings per share	411.6	410.3	406.8
Net earnings per share of common stock:			
Basic	$ 1.67	$ 1.16	$ 1.14
Diluted	$ 1.64	$ 1.14	$ 1.11

Options to purchase 3.4 million shares of common stock were outstanding during the second quarter of 2005, and 6.5 million during the fourth quarter of 2005, 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 shares for those periods.

NOTE 10
RETIREMENT PLANS

Certain of the Company's subsidiaries have both funded and unfunded defined benefit plans covering some or all of their employees. All of the defined benefit plans have projected benefit obligations in excess of plan assets. The Company uses a December 31 measurement date for the determination of plan obligations and funded status of its plans. A summary of the information related to all of the Company's defined benefit plans is as follows (in millions):

	December 31	
	2005	*2004*
Change in projected benefit obligations:		
Projected benefit obligations at beginning of year	$145.3	$114.9
Service cost	8.6	7.0
Interest cost	6.4	5.9
Foreign exchange impact	(14.1)	7.4
Employee contributions	0.6	0.6
Actuarial losses	15.1	13.7
Benefits paid	(5.1)	(4.2)
Projected benefit obligations at end of year	156.8	145.3
Change in plan assets:		
Fair value of plan assets at beginning of year	78.7	64.9
Actual return	10.3	5.6
Employer contributions	13.2	7.8
Employee contributions	0.6	0.6
Foreign exchange impact	(6.7)	3.5
Benefits paid	(4.5)	(3.7)
Fair value of plan assets at end of year	91.6	78.7
Amount underfunded	(65.2)	(66.6)
Unrecognized net actuarial loss	37.7	32.0
Unrecognized transition amount	0.4	0.6
Unrecognized prior service cost	0.7	0.9
Net amount recognized in consolidated balance sheets	$(26.4)	$(33.1)
Weighted-average assumptions as of December 31:		
Discount rate	4.3%	4.7%
Expected return on plan assets	6.3%	6.4%
Rate of compensation increase	3.1%	3.1%

The components of the amounts recognized in the consolidated balance sheets are as follows (in millions):

	December 31	
	2005	*2004*
Prepaid benefit cost	$ 1.1	$ 1.2
Accrued benefit liability	(27.5)	(34.3)
Additional minimum liability	(17.5)	(15.6)
Intangible asset	0.4	0.5
Accumulated other comprehensive loss	17.1	15.1
Net amount recognized	$(26.4)	$(33.1)

The accumulated benefit obligation for all of the defined benefit plans was $133.6 million and $124.2 million as of December 31, 2005 and 2004, 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 $129.1 million, $112.6 million and $68.4 million, respectively, as of December 31, 2005 and $118.9 million, $104.1 million and $58.0 million, respectively, as of December 31, 2004.

The components of net periodic benefit cost are as follows (in millions):

	2005	*2004*	*2003*
Service cost	$ 8.8	$ 6.6	$ 5.7
Interest cost	6.3	5.6	4.9
Expected return on plan assets	(5.1)	(4.1)	(3.0)
Amortization of transition amounts and prior service cost	0.2	0.2	0.3
Recognized actuarial loss	0.9	0.5	0.6
Net periodic benefit cost	$11.1	$ 8.8	$ 8.5

The Company has assumed an average long-term expected return on defined benefit plan assets of 6.3% as of December 31, 2005. 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	
	2005	*2004*
Equity securities	65%	62%
Debt securities	30	28
Other	5	10
	100%	100%

The investment strategy for the Company's defined benefit 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, 2005:

	Low	High
Equity Securities	51%	72%
Debt securities	24	43
Other	1	16

The Company anticipates contributing approximately $9.2 million to its defined benefit plans in 2006.

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

	2006	*2007*	*2008*	*2009*	*2010*	*2011-15*
Expected benefit payments	$ 3.9	$ 4.1	$ 4.4	$ 5.1	$ 5.5	$33.7

Retirement plan expense under the Company's defined contribution retirement plans totaled $64.5 million in 2005, $61.1 million in 2004 and $55.5 million in 2003. A portion of the Company's retirement plan expenses was funded with Stryker common stock totaling $6.3 million in 2005, $5.4 million in 2004 and $4.8 million in 2003. 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 $71.2 million (approximately 1.6 million shares) and $78.4 million (approximately 1.6 million shares) as of December 31, 2005 and 2004, respectively. The value of Stryker common stock as a percentage of total defined contribution retirement plan assets was 13% as of December 31, 2005 and 17% as of December 31, 2004.

NOTE 11
INCOME TAXES

In the fourth quarter of 2004, the President of the United States signed the American Jobs Creation Act (the Act). The Act provided a temporary incentive for United States companies to repatriate accumulated income earned in foreign jurisdictions by providing an 85% dividends-received deduction for certain dividends from controlled corporations.

In the third quarter of 2005, the Company's Board of Directors approved a plan to repatriate $722 million of foreign earnings under the provisions of the Act. The repatriation plan was completed in the fourth quarter of 2005, and the Company recorded a charge of $27.4 million, or $.07 per diluted share, to recognize the income tax expense and related liability in the United States associated with the repatriation. The repatriated funds have been invested pursuant to an approved Domestic Reinvestment Plan that conforms to the Act.

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

	2005	*2004*	*2003*
United States operations	$ 409.3	$ 233.3	$ 258.4
Foreign operations	594.0	483.7	394.1
	$1,003.3	$ 717.0	$ 652.5

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

	2005	*2004*	*2003*
Current income tax expense:			
Federal	$ 177.6	$ 157.0	$ 99.8
State	27.3	17.9	20.5
Foreign	102.8	141.9	111.6
	307.7	316.8	231.9
Deferred income tax expense (credit)	20.4	(65.5)	(32.9)
	$ 328.1	$ 251.3	$ 199.0

A reconciliation of the United States statutory income tax rate to the Company's effective income tax rate follows:

	2005	*2004*	*2003*
United States statutory income tax rate	35.0%	35.0%	35.0%
Add (deduct):			
State taxes, less effect of federal deduction	2.4	1.8	1.4
Tax benefit relating to operations in Ireland and Puerto Rico	(9.3)	(9.3)	(8.2)
Nondeductible purchased in-process research and development	0.6	5.9	–
Nondeductible permanent differences	1.8	2.8	1.3
United States income taxes on repatriation of foreign earnings	2.7	–	–
Foreign income taxes at rates different from the United States statutory rate	0.5	(0.7)	1.9
Other	(1.0)	(0.5)	(0.9)
	32.7%	35.0%	30.5%

Deferred income taxes reflect the net 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 tax assets when it is more likely than not that a tax benefit will not be realized. The tax effect of significant temporary differences, which comprise the Company's deferred income tax assets and liabilities, is as follows (in millions):

	December 31	
	2005	*2004*
Deferred income tax assets:		
Inventories	$ 255.5	$ 280.3
Accounts receivable and other assets	20.7	14.6
Other accrued expenses	87.8	82.3
Depreciation and amortization	24.2	19.2
State taxes	15.0	16.0
Net operating loss carryforwards	16.2	14.8
Other	17.6	20.4
Total deferred income tax assets	437.0	447.6
Less valuation allowance	(11.2)	(1.5)
Total deferred income tax assets after valuation allowances	425.8	446.1
Deferred income tax liabilities:		
Depreciation and amortization	(118.5)	(104.8)
Other accrued expenses	(11.6)	(11.9)
Other	(10.5)	(15.9)
Total deferred income tax liabilities	(140.6)	(132.6)
Total net deferred income tax assets	$ 285.2	$ 313.5

Net operating loss carryforwards totaling approximately $39.7 million at December 31, 2005 are available to reduce future taxable earnings of certain domestic and foreign subsidiaries.

Deferred income tax assets and liabilities are included in the consolidated balance sheets as follows (in millions):

	December 31	
	2005	*2004*
Current assets—Deferred income taxes	$ 383.1	$ 407.5
Noncurrent assets—Deferred income taxes	42.7	38.6
Current liabilities—Accrued expenses and other liabilities	(35.8)	(46.2)
Noncurrent liabilities—Other liabilities	(104.8)	(86.4)
Total net deferred income tax assets	$ 285.2	$ 313.5

At December 31, 2005, tax authorities in several 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 tax authorities are in agreement with the Company's interpretations of complex income tax regulations regarding the allocation of income to the various tax jurisdictions. During 2005, the Company did not reach resolution on any significant outstanding tax audit and, therefore, increased its income tax accruals related to the Company's best estimate of the probable resolution of these tax positions by approximately $65.0 million.

No provision has been made for United States federal and state income taxes or foreign taxes that may result from future remittances of the undistributed earnings ($1,165.0 million at December 31, 2005) 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 $247.8 million in 2005, $235.8 million in 2004 and $189.5 million in 2003.

NOTE 12
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, spinal and micro 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 Physical Therapy Services and corporate administration, interest expense and interest income.

Effective January 1, 2004, the Company changed its business segment reporting to include the financial results of micro implant systems within its Orthopaedic Implants reportable segment rather than within its MedSurg Equipment reportable segment. The Company believes these products are better aggregated with its other Orthopaedic Implants based on similarities in manufacturing and marketing practices and customer base. Prior year results have been reclassified to correspond with this change in reporting.

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. The Company measures the financial results of its reportable segments using an internal performance measure that excludes the additional income taxes on the repatriation of foreign earnings recognized in 2005 and the purchased in-process research and development charges recognized in 2005 and 2004. Identifiable assets are those assets used exclusively in the operations of each business segment or are allocated when used jointly. Corporate assets are principally cash and cash equivalents; marketable securities; and property, plant and equipment.

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

	Orthopaedic Implants	MedSurg Equipment	Other	Total
Year ended December 31, 2005				
Net sales	$2,855.1	$1,753.8	$ 262.6	$4,871.5
Interest income	–	–	13.3	13.3
Interest expense	–	–	7.7	7.7
Depreciation and amortization expense	230.0	49.6	10.3	289.9
Income taxes (credit)	206.5	101.5	(7.3)	300.7
Segment net earnings (loss)	464.2	273.2	(18.9)	718.5
Less purchased in-process research and development				15.9
Less income taxes on repatriation of foreign earnings				27.4
Net earnings				675.2
Total assets	2,988.8	874.7	1,080.6	4,944.1
Capital expenditures	183.5	69.9	18.3	271.7
Year ended December 31, 2004				
Net sales	2,562.5	1,454.9	244.9	4,262.3
Interest income	–	–	4.7	4.7
Interest expense	–	–	6.8	6.8
Depreciation and amortization expense	196.1	40.0	14.8	250.9
Income taxes (credit)	192.8	76.8	(18.3)	251.3
Segment net earnings (loss)	414.6	204.4	(32.5)	586.5
Less purchased in-process research and development				120.8
Net earnings				465.7
Total assets	2,906.0	698.4	479.4	4,083.8
Capital expenditures	127.9	52.1	7.8	187.8
Year ended December 31, 2003				
Net sales	2,192.5	1,209.8	223.0	3,625.3
Interest income	–	–	3.1	3.1
Interest expense	–	–	22.6	22.6
Depreciation and amortization expense	188.8	33.7	7.2	229.7
Income taxes (credit)	143.8	68.1	(12.9)	199.0
Segment net earnings (loss)	298.7	177.8	(23.0)	453.5
Total assets	2,475.6	544.9	138.6	3,159.1
Capital expenditures	106.8	33.1	4.6	144.5

The Company's principal areas of operation outside of the United States are Japan and Europe. The Company also has operations in the Pacific region, Canada, Latin America and the Middle East. Geographic information follows (in millions):

	Net Sales	Long-Lived Assets
Year ended December 31, 2005		
United States	$3,165.6	$1,059.7
Europe	891.1	788.0
Japan	380.1	99.0
Other foreign countries	434.7	84.6
	$4,871.5	$2,031.3
Year ended December 31, 2004		
United States	$2,753.0	$1,038.6
Europe	780.2	695.0
Japan	351.5	112.3
Other foreign countries	377.6	56.7
	$4,262.3	$1,902.6
Year ended December 31, 2003		
United States	$2,333.4	$ 942.9
Europe	658.1	639.8
Japan	318.5	106.5
Other foreign countries	315.3	46.2
	$3,625.3	$1,735.4

NOTE 13
LEASES

The Company leases various manufacturing and office facilities and equipment under operating leases. Future minimum lease commitments under these leases are as follows (in millions):

2006	$ 51.2
2007	42.9
2008	35.4
2009	26.0
2010	17.1
Thereafter	48.4
	$221.0

Rent expense totaled $85.3 million in 2005, $79.9 million in 2004 and $72.0 million in 2003.

NOTE 14
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, intellectual property and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. The Company records amounts for losses that are deemed to be probable and subject to reasonable estimate. However, the Company does not anticipate material losses as a result of these proceedings beyond amounts already provided in the accompanying Consolidated Financial Statements.

In December 2003, the Company announced that its subsidiary Physiotherapy Associates, Inc., and Stryker received a subpoena from the United States Attorney's Office in Boston, Massachusetts, in connection with a Department of Justice investigation of Physiotherapy Associates' billing and coding practices. In March 2005, the Company announced that it received a subpoena from the United States Department of Justice requesting documents 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 Company is fully cooperating with the Department of Justice regarding these matters.

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 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 the potential payment is dependent on the occurrence of future unknown events (e.g., changes in United States or foreign tax laws).

SUMMARY OF QUARTERLY DATA (UNAUDITED) Stryker Corporation and Subsidiaries

(in millions, except per share data)

	2005 Quarter Ended				2004 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Net sales	$1,202.5	$1,218.6	$1,171.9	$1,278.5	$1,035.1	$1,043.0	$1,028.7	$1,155.5
Gross profit	773.4	796.4	756.4	831.4	666.9	678.3	663.6	743.4
Earnings before income taxes	245.6	261.4	231.8	264.5	194.1	218.2	72.4	232.3
Net earnings	173.1	184.3	132.1	185.7	135.9	152.7	14.4	162.7
Net earnings per share of common stock:								
Basic	.43	.46	.33	.46	.34	.38	.04	.40
Diluted	.42	.45	.32	.45	.33	.37	.04	.40
Market price of common stock:								
High	52.64	50.95	56.32	49.74	47.20	55.94	57.66	48.81
Low	43.00	43.51	46.80	39.74	41.77	44.21	43.71	40.30

The price quotations reported above were supplied by the New York Stock Exchange.

BOARD OF DIRECTORS

John W. Brown
Chairman of the Board, Stryker Corporation

Howard E. Cox, Jr. * † ‡*
Partner, Greylock

Donald M. Engelman, Ph.D.
Eugene Higgins Professor of Molecular Biophysics and Biochemistry, Yale University

Jerome H. Grossman, M.D. * ‡*
Director of the Harvard/Kennedy School Health Care Delivery Policy Program at Harvard University

Stephen P. MacMillan
President and Chief Executive Officer, Stryker Corporation

William U. Parfet * † ‡*
Chairman and Chief Executive Officer, MPI Research, Inc.

Ronda E. Stryker † ‡
Granddaughter of the founder of the Company and daughter of the former President of the Company, Vice Chairman and Director of Greenleaf Trust, Vice Chairman and Trustee of Spelman College, and Trustee of Kalamazoo College and the Kalamazoo Community Foundation

* Audit Committee
† Compensation Committee
‡ Governance and Nominating Committee

CORPORATE OFFICERS

Stephen P. MacMillan
President and Chief Executive Officer

J. Patrick Anderson
Vice President, Strategy and Communications

Dean H. Bergy
Vice President and Chief Financial Officer

Curtis E. Hall
Vice President and General Counsel

Jud Hoff
Vice President and General Manager, Physiotherapy Associates

Christopher F. Homrich
Vice President and Treasurer

Stephen Si Johnson
Vice President and Group President, MedSurg

James E. Kemler
Vice President and Group President, Biotech, Spine, Osteosynthesis and Development

James R. Lawson
Executive Vice President

Edward B. Lipes
Executive Vice President

Eric Lum
Vice President, Tax

James B. Praeger
Controller

Michael W. Rude
Vice President, Human Resources

David J. Simpson
Executive Vice President

Thomas R. Winkel
Vice President, Administration and Secretary

Jeffrey R. Winter
Vice President, Internal Audit

Bryant S. Zanko
Vice President, Business Development

OPERATING GROUPS AND DIVISIONS

ORTHOPAEDICS
Michael P. Mogul – President

BIOTECH, SPINE, OSTEOSYNTHESIS AND DEVELOPMENT
James E. Kemler – Group President

Biotech
Mark A. Philip, Ph.D. – President

Spine
Timothy J. Scannell – President

Osteosynthesis
Vivian Masson – President

Development
Ron Lancaster – Senior Director

MEDSURG
Stephen Si Johnson – Group President

Instruments
Curt R. Hartman – Global President

Endoscopy
William R. Enquist – Global President

Medical
James L. Cunniff – President

Canada
Jeffrey L. Smith – Vice President and General Manager

Latin America
Lee D. Lovely – Vice President and General Manager

INTERNATIONAL
Luciano Cattani – Group President

Europe, Middle East, Africa
Patrick J. Beyer – President

Japan
Yoshiaki Nakazawa – Representative Director and President

Pacific
Andrew Fox-Smith – President

PHYSIOTHERAPY ASSOCIATES
Jud Hoff – Vice President and General Manager

OTHER INFORMATION

General Counsel
Winston & Strawn LLP, New York, New York

Independent Registered Public Accounting Firm
Ernst & Young LLP, Grand Rapids, Michigan

Transfer Agent and Registrar
National City Bank, Cleveland, Ohio

Shareholders needing information regarding their certificates or dividends should contact:

National City Bank
Corporate Trust Operations
P.O. Box 92301
Cleveland, Ohio 44193-0900
(1-800-622-6757)
shareholder.inquiries@nationalcity.com

Investor Contact
Dean H. Bergy, Vice President and Chief Financial Officer

Annual Meeting
The Annual Meeting of Shareholders of Stryker Corporation will be held at the Radisson Plaza Hotel & Suites in Kalamazoo, Michigan, on Wednesday, April 26, 2006, at 2:00 p.m.

Form 10-K
The Company files Form 10-K with the Securities and Exchange Commission. Shareholders wishing a copy of the 2005 report may obtain it free of charge at www.stryker.com or request it by writing to:

Secretary
Stryker Corporation
2725 Fairfield Road
Kalamazoo, MI 49002

Stock Listing
The Company's common stock is traded on the New York Stock Exchange under the symbol SYK.

Chief Executive Officer and Chief Financial Officer Certifications
The Company has filed with the U.S. Securities and Exchange Commission all required certifications of the Chief Executive Officer (CEO) and Chief Financial Officer of the Company regarding the quality of Stryker's public disclosures. In addition, Stryker's CEO submitted to the New York Stock Exchange (NYSE) the annual CEO certification stating that he is not aware of any violation by the Company of the NYSE's corporate governance listing standards.

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Stryker's Equal Employment Opportunity Policy Statement
Stryker is committed to providing Equal Employment Opportunity to all employees and applicants for employment on the basis of skills and ability and without regard to race, color, creed, religion, sex, age, disability, national origin, ancestry, citizenship, armed forces service, marital or veteran status, sexual orientation, or any other impermissible factor. Our policy of Equal Opportunity and Affirmative Action applies to all phases of the employment process including, but not limited to, recruitment, selection, promotion, transfer, demotion, layoff, termination, compensation, benefits, and other terms and conditions of employment, and further requires maintaining a work atmosphere free of bias, including the prevention of harassment. Harassment includes, but is not limited to, disparaging remarks, innuendoes, slurs, demeaning written or graphic material, or demeaning physical or verbal confrontations based on race, color, creed, religion, sex, age, disability, national origin, ancestry, citizenship, armed forces service, marital or veteran status, sexual orientation, or any other impermissible factor. Harassment of any nature is expressly prohibited at Stryker.

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