

STRYKER CORP
Form 10-K
February 27, 2013

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

FORM 10-K

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

For the fiscal year ended December 31, 2012

OR

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

Commission file number: 000-09165

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

Michigan	38-1239739
(State of incorporation)	(I.R.S. Employer Identification No.)
2825 Airview Boulevard, Kalamazoo, Michigan	49002
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code: (269) 385-2600	

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

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

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

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

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

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

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

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

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

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Large accelerated filer x

Accelerated filer o

Non-accelerated filer o

Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES "

NO y

Based on the closing sales price of June 30, 2012, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$19,179,042,425. The number of shares outstanding of the registrant's common stock, \$.10 par value, was 380,512,172 at January 31, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement to be filed with the U.S. Securities and Exchange Commission relating to the 2013 Annual Meeting of Shareholders (the 2013 proxy statement) are incorporated by reference into Part III.

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PART I
ITEM 1. BUSINESS.

General

Stryker Corporation is one of the world's leading medical technology companies with 2012 revenues of \$8,657 and net earnings of \$1,298. Stryker's products include implants used in joint replacement and trauma surgeries; surgical equipment and surgical navigation systems; endoscopic and communications systems; patient handling and emergency medical equipment; neurosurgical, neurovascular and spinal devices; as well as other medical device products used in a variety of medical specialties.

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

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

Business Segments and Geographic Information

We segregate our reporting into three reportable business segments: Reconstructive, MedSurg, and Neurotechnology and Spine. Financial information regarding our reportable business segments and certain geographic information is included under "Results of Operations" in Item 7 of this report and Note 12 to the Consolidated Financial Statements in Item 8 of this report.

The net sales for each reportable segment over the last three years were:

	2012		2011		2010			
Reconstructive	\$3,823	44	% \$3,710	45	% \$3,549	48	%	
MedSurg	3,265	38	% 3,160	38	% 2,803	38	%	
Neurotechnology and Spine	1,569	18	% 1,437	17	% 968	14	%	
Total	\$8,657	100	% \$8,307	100	% \$7,320	100	%	

Reconstructive

Reconstructive products consist primarily of implants used in hip and knee joint replacements and trauma and extremities surgeries. We bring patients and physicians advanced implant designs and specialized instrumentation that make orthopaedic surgery and recovery simpler, faster and more effective. We support surgeons with the technology and services they need as they develop new surgical techniques.

The net sales of Reconstructive products over the last three years were:

	2012		2011		2010			
Knees	\$1,356	35	% \$1,316	35	% \$1,306	37	%	
Hips	1,233	32	% 1,228	33	% 1,154	33	%	
Trauma and Extremities	989	26	% 931	25	% 845	24	%	
Other	245	7	% 235	7	% 244	6	%	
Total	\$3,823	100	% \$3,710	100	% \$3,549	100	%	

In 2012 we launched Accolade II, the first hip stem with a Morphometric Wedge design, an evolution of the tapered wedge stem. We also launched the GetAroundKnee direct to consumer advertising campaign to convey the benefits of the single radius design of our Triathlon Knee System.

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

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

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

MedSurg

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

The net sales of MedSurg products over the last three years were:

	2012		2011		2010				
Instruments	\$1,261	39	%	\$1,187	38	%	\$1,085	39	%
Endoscopy	1,111	34	%	1,080	34	%	985	35	%
Medical	691	21	%	722	23	%	583	21	%
Other	202	6	%	171	5	%	150	5	%
Total	\$3,265	100	%	\$3,160	100	%	\$2,803	100	%

In 2012 we launched System 7, the next generation of heavy duty surgical power tools. These tools are used in total joint procedures, such as hip and knee replacements, and offer the latest in advanced cutting technology. We also launched the 1488 HD 3-Chip Endoscopic Camera System, which utilizes advanced CMOS technology and premium optics to provide a clear bright image designed to enhance patient outcomes. In addition, we launched Power-LOADTM, our cot fastener system that lifts and lowers the cot into and out of ambulances, thereby reducing spinal loads and the risk of cumulative trauma injuries to emergency responders.

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

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

Stryker is one of three market leaders in Instruments, competing principally with Medtronic, Inc. and Conmed Linvatec, Inc. (a subsidiary of CONMED Corporation) globally; internationally, we also compete with Aesculap-Werke AG (a division of B. Braun Melsungen AG). In Endoscopy, we compete with Smith & Nephew Endoscopy (a division of Smith & Nephew plc), ConMed Linvatec, Inc., Arthrex, Inc., Karl Storz GmbH & Co. and Olympus Optical Co. Ltd. Our primary competitors in Medical are Hill-Rom Holdings, Inc. and Kinetic Concepts, Inc.

Neurotechnology and Spine

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

The net sales of Neurotechnology and Spine products over the last three years were:

	2012	2011	2010
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Neurotechnology	\$842	54	% \$750	52	% \$320	33	%
Spine	727	46	% 687	48	% 648	67	%
Total	\$1,569	100	% \$1,437	100	% \$968	100	%

In 2012 we received 510(k) approval to market the Trevo[®] Pro Retriever, our next generation clot removal technology that utilizes proprietary Stentriever[®] Technology for optimized clot integration and retrieval in patients experiencing acute ischemic stroke.

In 2012 we received 510(k) approval to market our Trevo[®] ProVEU[™] Retriever, the first clot removal device fully visible during the procedure for precise positioning within the clot and optimized clot retrieval in patients experiencing acute ischemic stroke.

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

In 2012 we completed the acquisition of Surpass Medical, Ltd. (Surpass). Surpass is developing and commercializing next-generation flow diversion stent technology to treat brain aneurysms using a unique mesh design and delivery system. The acquisition of Surpass enhances the product offerings within our Neurotechnology product line.

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

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

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

Geographic Areas

In 2012 approximately 65.4% of our revenues were generated from customers in the United States. Internationally our products are sold in over 100 countries through local dealers and direct sales efforts. Additional geographic information is included under "Results of Operations" in Item 7 of this report and Note 12 to the Consolidated Financial Statements in Item 8 of this report.

Raw Materials and Inventory

Raw materials essential to our business are generally readily available from multiple sources. Substantially all products we manufacture are stocked in inventory, while certain MedSurg products are assembled to order. A substantial amount of our neurovascular finished goods are currently sourced from Boston Scientific Corporation; the manufacture of these products will transfer to Stryker during 2013. The dollar amount of backlog orders at any given time is not considered to be significant.

Patents and Trademarks

Patents and trademarks are significant to our business to the extent that a product or an attribute of a product represents a unique design or process. Patent protection of such products restricts competitors from duplicating these unique designs and features. We seek to obtain patent protection on our products whenever appropriate for protecting our competitive advantage. As of December 31, 2012, we own approximately 1,687 United States patents and 3,081 international patents.

Seasonality

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

Competition

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

particularly significant. The competitive environment requires substantial investments in continuing research and in maintaining sales forces.

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

Product Development

Most of our products and product improvements, with the exception of our neurotechnology products, have been developed internally at research facilities located in manufacturing locations in the United States, Ireland, Puerto Rico, Germany, Switzerland, India and

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

France. We also invest through acquisitions in technologies developed by third parties that have the potential to expand the markets in which we operate. We maintain close working relationships with physicians and medical personnel in hospitals and universities who assist us in product development efforts. The total costs of worldwide Company-sponsored research, development and engineering activities relating to the development of new products, improvement of existing products, technical support of products and compliance with governmental regulations for the protection of customers and patients were \$471, \$462 and \$394 in 2012, 2011 and 2010, respectively. Research, development and engineering expenses as a percentage of sales were 5.4%, 5.6% and 5.4% in 2012, 2011 and 2010, respectively. The spending level in 2012 as a percentage of sales decreased primarily due to the termination of all development of the OP-1 molecule in late 2011.

Regulation

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

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

The FDA's Quality System regulations set forth standards for our product design and manufacturing processes, require the maintenance of certain records and provide for inspections of our facilities by the FDA. There are also certain requirements of state, local and foreign governments that must be complied with in the manufacture and marketing of our products.

The member states of the European Union (EU) have adopted the European Medical Device Directives that form a single set of medical device regulations for all EU member countries. These regulations require companies that wish to manufacture and distribute medical devices in EU member countries to meet certain quality system requirements and obtain CE Marking for their products. We have authorization to apply the CE Marking to substantially all of our products. In addition, we comply with the unique regulatory requirements of each of the countries in which we market our products.

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

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

Employees

At December 31, 2012, we had approximately 22,010 employees worldwide. Certain international employees are covered by collective bargaining agreements. We believe that we maintain positive relationships with our employees worldwide.

Executive Officers of the Registrant

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

Available Information

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

ITEM 1A.

RISK FACTORS.

This report contains statements referring to us that are not historical facts and are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are intended to take advantage of the "safe harbor" provisions of the Reform Act, are based on current projections about operations, industry conditions, financial condition and liquidity. Words that identify forward-looking statements include words such as "may," "could," "will," "should," "possible," "plan," "predict," "forecast," "potential," "anticipate," "estimate," "expect," "project," "intend," "believe," "may impact," "on track," and words and terms of similar substance used in connection with any discussion of future operating or financial performance, an acquisition or our businesses. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Those statements are not guarantees and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results could differ materially and adversely from these forward-looking statements. Some important factors that could cause our actual results to differ from our expectations in any forward-looking statements include those risks discussed below.

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

Legal & Regulatory Risks

The impact of United States healthcare reform legislation on us remains uncertain. In 2010 federal legislation to reform the United States healthcare system was enacted into law. The law was upheld by a Supreme Court decision that was announced on June 28, 2012. The legislation is far-reaching and is intended to expand access to health insurance coverage, improve quality and reduce costs over time. We expect the new law will have a significant impact upon various aspects of our business operations. Among other things, the new law imposes a 2.3 percent excise tax on Class I, II and III medical devices beginning January 2013 that will apply to United States sales of a majority of our medical device products. Other provisions of this legislation, including Medicare provisions aimed at improving quality and decreasing costs, comparative effectiveness research, an independent payment advisory board, and pilot programs to evaluate alternative payment methodologies, could meaningfully change the way healthcare is developed and delivered. Further, we cannot predict what other healthcare programs and regulations will be ultimately implemented at the federal or state level, the effect of any future legislation or regulation in the United States or internationally or whether any changes will lower reimbursements for our products or reduce medical procedure volumes.

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

We may be adversely affected by product liability claims, unfavorable court decisions or legal settlements. We are defendants in various proceedings, legal actions and claims arising in the normal course of business, including product liability and other matters. These matters are subject to many uncertainties and outcomes are not predictable. In

addition, we may incur significant legal expenses regardless of whether we are found to be liable. To partially mitigate losses arising from unfavorable outcomes in such matters, we purchase third-party insurance coverage subject to certain retentions, deductibles and loss limitations. We may be adversely impacted by any settlement payments or losses beyond the amounts of insurance carried or for which coverage is otherwise not available. In addition, even if covered by insurance, such losses may negatively impact our ability to obtain third-party insurance coverage in future periods on a cost effective basis or at all.

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

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

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

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

Market Risks

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

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

Business and Operational Risks

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

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

We may be unable to maintain adequate working relationships with healthcare professionals. We seek to maintain close working relationships with respected physicians and medical personnel in hospitals and universities who assist in product research and development. We rely on these professionals to assist us in the development of proprietary products and product improvements to complement and expand our existing product lines. If we are unable to

maintain these relationships, our ability to develop, market and sell new and improved products could decrease.

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

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

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

We may record future goodwill impairment charges related to one or more of our business units, which could materially adversely impact our results of operations. We perform our annual impairment test for goodwill in the fourth quarter of each year, or more frequently if indicators are present or changes in circumstances suggest that impairment may exist. In evaluating the potential for impairment we make assumptions regarding revenue projections, growth rates, cash flows, tax rates, and discount rates. These assumptions are uncertain and by nature may vary from actual results. A significant reduction in the estimated fair values could result in impairment charges that could materially affect our results of operations.

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

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

We may be unable to attract and retain key employees. Our sales, technical and other key personnel play an integral role in the development, marketing and selling of new and existing products. If we are unable to recruit, hire, develop and retain a talented, competitive work force, we may not be able to meet our strategic business objectives.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The following are our principal manufacturing locations as of December 31, 2012:

Location	Segment	Square Feet	Owned/Leased
Mahwah, New Jersey	Reconstructive	531,000	Owned
Kiel, Germany	Reconstructive	173,000	Owned
Suzhou, China	Reconstructive, Neurotechnology and Spine	158,000	Owned
Selzach, Switzerland	Reconstructive	137,000	Owned
Freiburg, Germany	Reconstructive	119,000	Owned
Malvern, Pennsylvania	Reconstructive	88,000	Leased
Carrigtwohill, Ireland	Reconstructive	72,000	Owned
Freiburg, Germany	Reconstructive, MedSurg	68,000	Leased
Limerick, Ireland	Reconstructive	58,000	Owned
Stetten, Germany	Reconstructive	33,000	Owned
Rennes, France	Reconstructive	31,000	Leased
Portage, Michigan	MedSurg	1,034,000	Owned
Arroyo, Puerto Rico	MedSurg	220,000	Leased
San Jose, California	MedSurg	185,000	Leased
Lakeland, Florida	MedSurg	125,000	Leased
Flower Mound, Texas	MedSurg	114,000	Leased
Phoenix, Arizona	MedSurg	93,000	Leased
Guayama, Puerto Rico	MedSurg	46,000	Leased
Neuchâtel, Switzerland	Neurotechnology and Spine	88,000	Owned
Cestas, France	Neurotechnology and Spine	79,000	Owned
Mountain View, California	Neurotechnology and Spine	62,000	Owned
Cestas, France	Neurotechnology and Spine	35,000	Leased
West Valley, Utah	Neurotechnology and Spine	29,000	Leased

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

ITEM 3. LEGAL PROCEEDINGS.

We are involved in various proceedings, legal actions and claims arising in the normal course of business, including proceedings related to product, labor and intellectual property, and other matters that are more fully described in Note 6 to the Consolidated Financial Statements in Item 8 of this report; this information is incorporated herein by reference.

ITEM 4. MINE SAFETY.

Not applicable.

PART II

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

Our common stock is traded on the New York Stock Exchange under the symbol SYK. Quarterly stock price and dividend information for the years ended December 31, 2012 and 2011 were as follows:

	2012 Quarter Ended				2011 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Dividends declared per share of common stock	\$0.2125	\$0.2125	\$0.2125	\$0.265	\$0.18	\$0.18	\$0.18	\$0.2125
Market price of common stock:								
High	55.90	57.14	56.79	56.75	65.20	64.61	60.64	51.13
Low	50.41	49.43	50.05	51.60	53.50	56.58	43.73	44.56

Our Board of Directors considers payment of cash dividends at each of its quarterly meetings. On January 31, 2013, there were 4,236 shareholders of record of our common stock.

In December 2012, 2011 and 2010, we announced that our Board of Directors had authorized us to purchase up to \$405, \$500 and \$500, respectively, of our common stock (the 2012, 2011 and 2010 Repurchase Programs, respectively). Purchases are to be made from time to time in the open market, in privately negotiated transactions or otherwise. Under the 2010 Repurchase Program, we repurchased 2.1 million shares at a cost of \$108 during 2012. We had not made any repurchases pursuant to the 2012 or 2011 Repurchase Programs at December 31, 2012. At December 31, 2012, the maximum dollar value of shares that may yet be purchased under the the authorized Repurchase Programs was \$1,000.

The following graph compares our total returns (including reinvestments of dividends) against the Standard & Poor's (S&P) 500 Composite Stock Price Index and the S&P Health Care (Medical Products and Supplies) Index. The graph assumes \$100 (not in millions) invested on December 31, 2007 in our Common Stock and each of the indices.

Company / Index	2007	2008	2009	2010	2011	2012
Stryker Corporation	100.00	54.01	68.44	73.84	69.32	77.71
S&P 500 Index	100.00	63.00	79.68	91.68	93.61	108.59
S&P 500 Health Care Index	100.00	77.19	92.40	95.08	107.18	126.35

ITEM 6. SELECTED FINANCIAL DATA.

Selected financial data for each of the five years in the period ended December 31, 2012 is as follows:

CONSOLIDATED OPERATIONS	2012	2011	2010	2009	2008
Net sales	\$8,657	\$8,307	\$7,320	\$6,723	\$6,718
Cost of sales	2,781	2,811	2,286	2,184	2,131
Gross profit	5,876	5,496	5,034	4,539	4,587
Research, development and engineering expenses	471	462	394	336	368
Selling, general and administrative expenses	3,466	3,150	2,707	2,506	2,625
Intangibles amortization	123	122	58	36	40
Other (a)	75	76	124	67	35
	4,135	3,810	3,283	2,945	3,068
Operating income	1,741	1,686	1,751	1,594	1,519
Other income (expense)	(36)	—	(22)	30	61
Earnings from continuing operations before income taxes	1,705	1,686	1,729	1,624	1,580
Income taxes	407	341	456	517	432
Net earnings	\$1,298	\$1,345	\$1,273	\$1,107	\$1,148
PER SHARE DATA					
Net earnings per share of common stock:					
Basic	\$3.41	\$3.48	\$3.21	\$2.79	\$2.81
Diluted	\$3.39	\$3.45	\$3.19	\$2.77	\$2.78
Dividends per share of common stock:					
Declared	\$0.9025	\$0.7525	\$0.63	\$0.25	\$0.40
Paid	\$0.85	\$0.72	\$0.60	\$0.50	\$0.33
Average number of shares outstanding—in millions:					
Basic	380.6	386.5	396.4	397.4	408.1
Diluted	383.0	389.5	399.5	399.4	413.6
CONSOLIDATED FINANCIAL POSITION					
Cash, cash equivalents and current marketable securities	\$4,285	\$3,418	\$4,380	\$2,955	\$2,196
Accounts receivable—net	1,430	1,417	1,252	1,147	1,130
Inventory—net	1,265	1,283	1,057	943	953
Property, plant and equipment—net	948	888	798	948	964
Capital expenditures	210	226	182	131	155
Depreciation and amortization	486	481	410	385	388
Total assets	13,206	12,146	10,895	9,071	7,603
Accounts payable—net	288	345	292	200	274
Long-term debt, including current maturities	1,762	1,768	1,021	18	21
Shareholders' equity	8,597	7,683	7,174	6,595	5,407
Net cash provided by operating activities	1,657	1,434	1,547	1,461	1,176
OTHER DATA					
Number of shareholders of record	4,258	4,508	4,586	4,607	4,500
Number of employees	22,010	21,241	20,036	18,582	17,594

(a) Includes restructuring and asset impairment charges.

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

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

We supplement the reporting of our financial information determined under accounting principles generally accepted in the United States (GAAP) with certain non-GAAP financial measures, including percentage sales growth in constant currency, adjusted net earnings and adjusted diluted net earnings per share. We believe that these non-GAAP measures provide meaningful information to assist shareholders in understanding our financial results and assessing our prospects for future performance. Management believes percentage sales growth in constant currency, adjusted net earnings and adjusted net earnings per diluted share are important indicators of our operations because they exclude items that may not be indicative of or are unrelated to our core operating results and provide a baseline for analyzing trends in our underlying businesses. Management uses these non-GAAP financial measures for reviewing the operating results of reportable business segments and analyzing potential future business trends in connection with our budget process and bases certain annual bonus plans on these non-GAAP financial measures. To measure percentage sales growth in constant currency, we remove the impact of changes in foreign currency exchange rates that affect the comparability and trend of sales. Percentage sales growth in constant currency is calculated by translating current year results at prior year average foreign currency exchange rates. To measure earnings performance on a consistent and comparable basis, we exclude certain items that affect the comparability of operating results and the trend of earnings. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. These adjusted financial measures should not be considered in isolation or as a substitute for reported sales growth, net earnings and diluted net earnings per share, the most directly comparable GAAP financial measures. These non-GAAP financial measures are an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the reconciliations to corresponding GAAP financial measures at the end of the discussion of Results of Operations below, provide a more complete understanding of our business. We strongly encourage investors and shareholders to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure.

ABOUT STRYKER

Stryker is one of the world's leading medical technology companies, with 2012 revenues of \$8,657 and net earnings of \$1,298. We are dedicated to helping healthcare professionals perform their jobs more efficiently while enhancing patient care. We offer a diverse array of innovative medical technologies, including reconstructive, medical and surgical, and neurotechnology and spine products, to help people lead more active and more satisfying lives. In the United States, most of our products are marketed directly to doctors, hospitals and other healthcare facilities. In general, we maintain separate dedicated sales forces for each of our principal product lines to provide focus and a high level of expertise to each medical specialty served. Internationally our products are sold in over 100 countries through company-owned sales subsidiaries and branches as well as third-party dealers and distributors. Our business is generally not seasonal in nature; however, the number of reconstructive surgeries is generally lower during the summer months.

Recent Business Developments

In February 2013 we made a voluntary general offer to acquire all the shares of Trauson Holdings Company Limited for HK\$7.50 per ordinary share for a total consideration of \$764 in an all cash transaction. With this acquisition, which is expected to close before the end of the second quarter of 2013, we will expand our presence in a key emerging market with a product portfolio and pipeline that is targeted at the large and fast growing value segment of the Chinese orthopaedic market.

In December 2012 we recorded a charge of \$174 (\$133 net of taxes), or approximately \$0.35 per share, related to the previously disclosed voluntary recall of our Rejuvenate and ABG II modular-neck hip stems.

In November 2012 we completed the acquisition of Surpass Medical, Ltd. (Surpass). Surpass is developing and commercializing next-generation flow diversion stent technology to treat brain aneurysms using a unique mesh design and delivery system. The acquisition of Surpass enhances the product offerings within our Neurotechnology product line.

In October 2012 Kevin A. Lobo was named our President and Chief Executive Officer. Mr. Lobo replaced Curt R. Hartman, who had served as Interim Chief Executive Officer since the resignation of Stephen P. MacMillan.

In August 2012 we refinanced our credit facility with a new \$1,000 Unsecured Revolving Credit Facility due August 2017 (2012 Facility). The 2012 Facility replaced the previously outstanding \$1,000 Unsecured Credit Facility due in August 2013.

In 2012 we recorded \$40 in severance and related costs in connection with focused reductions of our global workforce and other restructuring activities that are expected to reduce our global workforce by approximately 5%. The targeted reductions and other restructuring activities were initiated to provide efficiencies and realign resources in advance of the Medical Device Excise Tax, as well as to allow for continued investment in strategic areas and drive growth. In addition, we recorded \$7 in intangible asset impairments, \$3 in agent conversion and \$25 in contractual and other obligations, as certain of our restructuring actions resulted in the discontinued use of specific assets and the exit of certain lease and other commitments.

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

RESULTS OF OPERATIONS

Our consolidated results of operations were:

	2012	2011	2010	Percentage Change	
				2012/2011	2011/2010
Net Sales	\$8,657	\$8,307	\$7,320	4.2	13.5
Gross Profit	5,876	5,496	5,034	6.9	9.2
Research, development & engineering expenses	471	462	394	1.9	17.3
Selling, general & administrative expenses	3,466	3,150	2,707	10.0	16.4
Intangible amortization	123	122	58	0.8	110.3
Property, plant and equipment impairment	—	—	124	—	(100.0)
Restructuring charges	75	76	—	(1.3)	—
Other income (expense)	(36)	—	(22)	—	(100.0)
Income taxes	407	341	456	19.4	(25.2)
Net Earnings	\$1,298	\$1,345	\$1,273	(3.5)	5.7
Diluted Net Earnings per share	\$3.39	\$3.45	\$3.19	(1.7)	8.2

Our geographic and segment net sales were:

	Net Sales			Percentage Change			
	2012	2011	2010	2012/2011		2011/2010	
				Reported	Constant Currency	Reported	Constant Currency
Geographic sales:							
United States	\$5,658	\$5,269	\$4,793	7.4	7.4	9.9	9.9
International	2,999	3,038	2,527	(1.3)	1.9	20.2	13.4
Total net sales	\$8,657	\$8,307	\$7,320	4.2	5.4	13.5	11.1
Segment sales:							
Reconstructive	\$3,823	\$3,710	\$3,549	3.1	4.4	4.5	1.5
MedSurg	3,265	3,160	2,803	3.3	4.2	12.7	11.2
Neurotechnology and Spine	1,569	1,437	968	9.2	10.5	48.5	46.4
Total net sales	\$8,657	\$8,307	\$7,320	4.2	5.4	13.5	11.1

Net sales increased 4.2% in 2012 after increasing 13.5% in 2011. In 2012 net sales grew by 5.6% as a result of increased unit volume and changes in product mix and 1.2% due to acquisitions, and were negatively impacted by 1.4% due to changes in price and 1.2% due to the unfavorable impact of foreign currency exchange rates on net sales. In constant currency, net sales in 2012 increased by 5.4%. In 2011 net sales grew by 6.1% as a result of increased unit volume and changes in product mix, 2.4% due to the favorable impact of foreign currency and 6.8% due to acquisitions, and were negatively impacted by 1.8% due to changes in price. In constant currency, net sales in 2011 increased by 11.1%.

The increase in consolidated net sales for 2012 was primarily due to higher shipments of Neurotechnology, Instruments, Trauma and Extremities, Spine and reprocessed and remanufactured medical devices; these gains were partially offset by slowness in the European markets. The increase in consolidated net sales for 2011 was primarily due to sales growth through acquisitions, higher United States shipments of MedSurg products and higher international shipments of MedSurg products and Neurotechnology and Spine products. In the United States net sales increased 7.4% in 2012 after increasing 9.9% in 2011. In constant currency, international sales increased 1.9% in 2012, compared to 13.4% in 2011.

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

Year Ended December 31, 2012					Year Ended December 31, 2011				
		Percentage Change					Percentage Change		
		U.S.		International			U.S.		International
2012	2011	As Reported	Constant Currency	As Reported	2011	2010	As Reported	Constant Currency	As Reported

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Reconstructive														
Hips	\$1,233	\$1,228	0.4	1.5	5.2	(4.5)	(2.3)	\$1,228	\$1,154	6.4	2.9	2.1	11.2	3.8
Knees	1,356	1,316	3.0	4.0	6.0	(2.4)	0.4	1,316	1,306	0.8	(1.5)	(2.3)	6.8	0.1
Trauma and Extremities	989	931	6.2	8.4	18.0	(3.5)	0.4	931	845	10.2	6.5	10.2	10.2	3.4
Total Reconstructive	3,823	3,710	3.1	4.4	9.2	(4.3)	(1.4)	3,710	3,549	4.5	1.5	0.9	9.3	2.3
MedSurg														
Instruments	1,261	1,187	6.2	7.3	9.1	(0.4)	3.1	1,187	1,085	9.4	7.4	9.4	9.5	2.9
Endoscopy	1,111	1,080	2.9	3.9	2.6	3.7	7.1	1,080	985	9.6	7.9	7.5	15.4	9.1
Medical	691	722	(4.3)	(3.7)	(7.8)	11.1	14.8	722	583	23.8	22.8	25.5	16.7	11.5
Total MedSurg	3,265	3,160	3.3	4.2	3.4	3.0	6.5	3,160	2,803	12.7	11.2	12.6	13.2	6.9
Neurotechnology and Spine														
Spine	727	687	5.8	6.9	9.2	(1.7)	1.7	687	648	6.0	4.0	2.5	14.4	7.6
Neurotechnology	842	750	12.3	13.9	19.0	3.9	7.6	750	320	134.4	132.3	78.6	283.6	275.7
Total Neurotechnology and Spine	1,569	1,437	9.2	10.5	13.8	1.7	5.3	1,437	968	48.5	46.4	28.1	99.6	92.4

Reconstructive net sales in 2012 increased 3.1% from 2011, primarily due to a 5.6% increase in unit volume and changes in product mix and 0.9% due to acquisitions. Net sales were negatively impacted by 2.2% due to changes in price and 1.3% due to the

unfavorable impact of foreign currency exchange rates on net sales. In constant currency, Reconstructive net sales increased by 4.4% in 2012, primarily due to increases in Trauma and Extremities and market share gains in part as a result of a competitor's product recall, offset in part by slowness in the European markets. Reconstructive net sales in 2011 increased 4.5% from 2010, primarily due to a 3.4% increase in unit volume and changes in product mix, a 3.0% favorable foreign currency impact and 0.8% due to acquisitions. The increase in units sold was due to higher industry demand. In addition, net sales were negatively impacted by 2.8% due to changes in price. In constant currency, Reconstructive net sales increased by 1.5% in 2011.

MedSurg net sales in 2012 increased 3.3% from 2011, primarily due to a 4.1% increase in unit volume and changes in product mix and 0.1% due to acquisitions, and were negatively impacted by 0.1% due to changes in price and 0.9% due to the unfavorable impact of foreign currency exchange rates on net sales. In constant currency, MedSurg net sales in 2012 increased 4.2%, led by higher shipments of Instruments and reprocessed and remanufactured medical devices; these higher shipments were partially offset by challenging global market conditions for capital equipment. MedSurg net sales in 2011 increased 12.7% from 2010, led by Medical while Endoscopy and Instruments also increased, primarily due to a 9.5% increase in unit volume and changes in product mix, 1.6% due to the favorable impact of foreign currency and 1.9% due to acquisitions. The effect of pricing on net sales was not significant. In constant currency MedSurg net sales increased by 11.2% in 2011.

Neurotechnology and Spine net sales in 2012 increased 9.2% from 2011, primarily due to an 8.5% increase in unit volume and changes in product mix and 4.2% due to acquisitions, and were negatively impacted by 2.2% due to changes in price and 1.3% due to the unfavorable impact of foreign currency exchange rates on net sales. In constant currency Neurotechnology and Spine net sales in 2012 increased 10.5%. Neurotechnology and Spine net sales in 2011 increased 48.5% from 2010, primarily due to the acquisition of Neurovascular. Sales growth from acquisitions was 42.6%. The remainder of the increase included 6.3% due to increases in unit volume and changes in product mix and 2.0% due to the favorable impact of foreign currency, and the negative impact of changes in price of 2.5%. In constant currency, Neurotechnology and Spine net sales in 2011 increased by 46.4%.

Consolidated Cost of Sales

Cost of sales decreased 1.1% from 2011 to 32.1% of sales compared to 33.8% in 2011. Cost of sales in 2012 and 2011 includes an additional cost of \$18 and \$143, respectively, related to inventory that was "stepped up" to fair value following acquisitions. Cost of sales for 2012 also included \$5 in other restructuring related costs. Aside from these factors, the decrease in the cost of sales percentage in 2012 was primarily due to efficiencies in our manufacturing and distribution network, a favorable product mix and a favorable impact from the effect of foreign currency on costs from our euro-based manufacturing operations. Cost of sales in 2011 increased 23.0% from 2010 to 33.8% of sales compared to 31.2% in 2010. The increase in the cost of sales percentage in 2011 was primarily due to the impact of inventory "step up" and lower pricing on sales resulting in an increase in cost of sales as a percentage of sales, the impact of changes in product mix and of a weaker United States dollar on purchases from international manufacturing operations.

Research, Development and Engineering Expenses

Research, development and engineering expenses represented 5.4% of sales compared to 5.6% in 2011 and 5.4% in 2010. The spending level in 2012 decreased as a percentage of sales primarily due to the termination of all development of the OP-1 molecule in late 2011. The higher spending level in 2011 compared to 2010 was the result of our focus on new product development for anticipated future product launches and continued investments in new technologies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 10.0% and represented 40.0% of sales compared to 37.9% in 2011 and 37.0% in 2010. In 2012 we recorded \$37 in acquisition and integration-related charges compared to \$66 in 2011. In addition, general and administrative costs in 2012 included \$174 related to the previously disclosed voluntary recall of our Rejuvenate and ABG II modular-neck hip stems, \$33 offered to the DOJ to settle the subpoena received in 2010 related to the sales and marketing of the OtisKnee device and \$8 in separation costs associated with our former Chief Executive Officer. In 2011 general and administrative expenses included the payment of an intellectual property infringement claim, offset by a favorable resolution of a value added tax issue. In 2010 we sold a manufacturing facility in France and recorded a gain of \$24 that is included in general and administrative expenses.

Restructuring Charges

In 2012 and 2011 we recorded \$75 and \$76, respectively, in restructuring charges related to focused reductions of our global workforce and other restructuring, expected to reduce our global workforce by approximately 5% and be complete by the end of 2013 at a total cost of approximately \$225. The targeted reductions and other restructuring activities were initiated to provide efficiencies and realign resources in advance of the Medical Device Excise Tax, as well as to allow for continued investment in strategic areas and drive growth.

Other Income (Expense)

Other expense in 2012 increased \$36 from 2011 after decreasing \$22 from 2010. The increase in expense in 2012 from 2011 and the reduction in expense from 2010 to 2011 are primarily due to reductions of accrued interest expense in 2011 resulting from settlements

reached with the United States Internal Revenue Service (IRS). In 2011 we reached a favorable settlement regarding an IRS proposed adjustment to our previously filed 2003 through 2007 income tax returns related to the income tax positions we had taken for our Irish cost sharing arrangements. We also reached a settlement with the IRS with respect to the allocation of income with a wholly owned subsidiary operating in Puerto Rico for the years 2006 through 2009. The higher interest expense in 2012 due to the effect of the 2011 tax settlements was partially offset by higher interest income on our investments, due to higher cash and cash equivalents and marketable securities balances compared to 2011.

Income Taxes

Our effective income tax rate on earnings was 23.9%, 20.2% and 26.4% in 2012, 2011 and 2010, respectively. The effective income tax rate for 2012 includes the net impact of effective settlement of all tax matters through 2004 relating to two German subsidiaries, and adjustment of the estimate of foreign tax credits to the amount shown on the tax return as filed. The effective income tax rate for 2011 includes the net impact of the settlements with the IRS as described above. The effective income tax rate for 2010 includes the impact of a property, plant and equipment impairment charge, the gain on sale of a manufacturing facility and the favorable income tax expense adjustment associated with the repatriation of foreign earnings to the United States completed in 2009.

The American Taxpayer Relief Act of 2012 (the Act) was signed on January 2, 2013. The Act provided numerous tax provisions for corporations including an extension of the research tax credit and an extension of certain provisions for companies with significant international operations. These provisions originally expired at December 31, 2011 but were retroactively extended through December 31, 2013. In 2013 we will record tax benefits of approximately \$13 related to the 2012 research tax credit and other provisions of the Act.

Net Earnings

Net earnings in 2012 decreased 3.5% from 2011 to \$1,298. Basic net earnings per share in 2012 decreased 2.0% from 2011 to \$3.41, and diluted net earnings per share in 2012 decreased 1.7% from 2011 to \$3.39. Net earnings in 2011 increased 5.7% from 2010 to \$1,345. Basic net earnings per share in 2011 increased 8.4% from 2010 to \$3.48, and diluted net earnings per share in 2011 increased 8.2% from 2010 to \$3.45.

Reported net earnings includes the benefits from settlements and other adjustments related to uncertain tax positions, restructuring and related charges and acquisition and integration related charges, including transaction costs, integration related costs and additional cost of sales for inventory sold in the year that was "stepped up" to fair value. In addition, 2012 net earnings includes a charge of \$133 (net of taxes) related to the previously disclosed voluntary recall of our Rejuvenate and ABG II modular-neck hip stems, and \$33 offered to the United States Department of Justice to resolve the matter related to the sales and marketing of our OtisKnee device for which we have recorded a corresponding non-tax deductible charge. Excluding the impact of these items, adjusted net earnings in 2012 increased 7.7% to \$1,560 after increasing 9.0% in 2011. Adjusted diluted net earnings per share in 2012 increased 9.4% to \$4.07 after increasing 11.7% in 2011.

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

	2012	2011	2010
Reported net earnings	\$ 1,298	\$ 1,345	\$ 1,273
Acquisition and integration-related charges, net of tax:			
Inventory stepped up to fair value	13	97	—
Acquisition and integration-related charges	24	45	—
Restructuring and related charges	59	60	—
Uncertain income tax position adjustments	—	(99)) —
OtisKnee matter	33	—	—
Rejuvenate and ABG II recall	133	—	—
Gain on sale of property, plant and equipment	—	—	(13)
Income taxes on repatriation of foreign earnings	—	—	(7)
Impairment of property, plant and equipment	—	—	76
Adjusted net earnings	\$ 1,560	\$ 1,448	\$ 1,329

Diluted net earnings per share of common stock:			
Reported diluted net earnings per share	\$3.39	\$3.45	\$3.19
Acquisition and integration-related charges, net of tax:			
Inventory stepped up to fair value	0.03	0.25	—
Acquisition and integration-related charges	0.06	0.12	—
Restructuring and related charges	0.15	0.16	—
Uncertain income tax position adjustments	—	(0.26) —
OtisKnee matter	0.09	—	—
Rejuvenate and ABG II recall	0.35	—	—
Gain on sale of property, plant and equipment	—	—	(0.03)
Income taxes on repatriation of foreign earnings	—	—	(0.02)
Impairment of property, plant and equipment	—	—	0.19
Adjusted diluted net earnings per share	\$4.07	\$3.72	\$3.33
Weighted-average diluted shares outstanding	383.0	389.5	399.5

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

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

FINANCIAL CONDITION AND LIQUIDITY

Operating Activities

Operating cash flow was \$1,657 in 2012, an increase of 15.6% from 2011. Operating cash flow resulted primarily from net earnings adjusted for non-cash items (depreciation and amortization, share-based compensation, sale of inventory "stepped up" to fair value at acquisition and deferred income taxes). The net of accounts receivable, inventory and accounts payable consumed \$50 of operating cash flow in 2012. Inventory contributed \$18 of operating cash flow as inventory days on hand decreased by 5 days due to lower inventory levels driven primarily by improved inventory management. Accounts receivable used \$20 primarily to support business growth, while accounts receivable days sales outstanding decreased by 3 days due to timing of sales.

Operating cash flow was \$1,434 in 2011, a decrease of 7.3% from 2010. Operating cash flow resulted primarily from net earnings adjusted for non-cash items (depreciation and amortization, share-based compensation, sale of inventory "stepped up" to fair value at acquisition and deferred income taxes). The net of accounts receivable, inventory and accounts payable consumed \$274 of operating cash flow in 2011. Inventory consumed \$166 of operating cash flow primarily due to the building of inventory related to acquisitions and other business growth, increased stock levels in advance of new product introductions and higher inventory levels in support of anticipated 2012 sales growth. Inventory days on hand increased by 4 days due to the impact of the above. Accounts receivable used \$143, primarily due to the building of accounts receivable related to acquisitions and other business growth. Accounts receivable days sales outstanding increased by 2 days due to timing of sales.

Investing Activities

Net investing activities consumed \$736 of cash in 2012 and \$2,135 in 2011, primarily due to acquisitions and capital spending.

Acquisitions. Acquisitions used \$154 of cash in 2012 and \$2,066 in 2011. Cash used in 2012 was primarily for the acquisition of Surpass Medical for \$99 as well as for milestone payments associated with previous acquisitions. Cash used in 2011 was primarily for the acquisitions of Neurovascular for \$1,450; Orthovita for \$316; Memometal for \$150; and Concentric for \$135.

Capital Spending. We manage capital spending to support our business growth. Capital expenditures, primarily to support integration of acquisitions, capacity expansion, new product introductions, innovation and cost savings, were \$210 in 2012 and \$226 in 2011.

Proceeds from Asset Sales. Proceeds from asset sales contributed \$67 to cash in 2011, primarily due to the sale of certain assets related to the OP-1 product family.

Financing Activities

Dividend Payments. Dividends paid per common share increased 18.1% to \$0.85 per share in 2012. Total dividend payments to common shareholders were \$324 in 2012 and \$279 in 2011. The increase in dividend payments resulted from increases in our quarterly dividend from \$0.18 per share in 2011 to \$0.2125 per share in 2012.

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

In September 2011 we sold \$750 of unsecured notes due September 2016. The net proceeds from the offerings have been and will continue to be available for working capital and other general corporate purposes, including acquisitions, stock repurchases and other business opportunities. Total debt was \$1,762 in 2012 and \$1,768 in 2011.

Share Repurchases. The total use of cash for share repurchases was \$108 in 2012 and \$622 in 2011.

Liquidity

Our cash, cash equivalents and marketable securities were \$4,285 at December 31, 2012 and \$3,418 at December 31, 2011 and our current assets exceeded current liabilities by \$6,272 at December 31, 2012 and \$5,367 at December 31, 2011. We anticipate being able to support our short-term liquidity and operating needs largely through cash generated from operations. We have also raised funds in the past in the capital markets and may continue to do so from time to

time. We have strong short- and long-term debt ratings that we believe should enable us to refinance our debt as it becomes due.

In August 2012 we refinanced our credit facility with a new \$1,000 Unsecured Revolving Credit Facility due August 2017 (2012 Facility). The 2012 Facility replaced the previously outstanding \$1,000 Unsecured Credit Facility that would have become due in August 2013. The 2012 Facility includes an increase option permitting us to increase the size of the facility up to an additional \$500, a \$500 multicurrency sublimit (with no sublimit for euro borrowings) and a \$100 letter of credit sublimit. The 2012 Facility has an

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

annual facility fee ranging from 5 to 22.5 basis points and bears interest at LIBOR, as defined in the 2012 Facility agreement, plus an applicable margin ranging from 57.5 to 127.5 basis points, both of which are dependent on our credit ratings.

Should additional funds be required we had approximately \$1,063 of borrowing capacity available under all of our existing credit facilities at December 31, 2012, including the 2012 Facility. In February of 2013 we made a voluntary general offer to acquire Trauson Holdings Company Limited, a leading manufacturer of trauma and spine products in China. In connection with this offer, we have restricted \$800 of our available borrowing capacity until the completion of the tender offer. The transaction is expected to close by the end of the second quarter of 2013.

At December 31, 2012, approximately 60% of our consolidated cash, cash equivalents and marketable securities were held outside of the United States. These funds are considered indefinitely reinvested to be used to expand operations either organically or through acquisitions outside the United States.

Several European countries, including Spain, Portugal, Italy and Greece (the Southern European Region), have been subject to credit deterioration due to weaknesses in their economic and fiscal conditions. We continuously monitor our investment portfolio for exposures to the European debt crisis. We currently do not have any investments in the sovereign debt instruments of the Southern European Region. Any non-sovereign exposure in these countries in our investment portfolio is considered immaterial.

We continually evaluate our receivables, particularly in the Southern European Region. The total net receivables from the Southern European Region were approximately \$198 and \$257 at December 31, 2012 and 2011, respectively, including approximately \$103 and \$170, respectively, of sovereign receivables. We believe that our current reserves related to receivables are adequate and any additional credit risk associated with the European debt crisis is not expected to have a material adverse impact on our financial position or liquidity.

Guarantees and Other Off-Balance Sheet Arrangements

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

CONTRACTUAL OBLIGATIONS AND FORWARD-LOOKING CASH REQUIREMENTS

As further described in Note 11 to the Consolidated Financial Statements, as of December 31, 2012 our defined benefit pension plans were underfunded by \$193, of which approximately \$183 related to plans outside the United States. Due to the rules affecting tax-deductible contributions in the jurisdictions the plans are offered and the impact of future plan asset performance, changes in interest rates and the potential for changes in legislation in the United States and other foreign jurisdictions, we are not able to reasonably estimate the future periods, beyond 2013, in which contributions to fund defined benefit pension plans will be made.

As further described in Note 10 to the Consolidated Financial Statements, as of December 31, 2012 we have recorded a liability for uncertain income tax positions of \$227. Due to uncertainties regarding the ultimate resolution of income tax audits, we are not able to reasonably estimate the future periods in which income tax payments to settle these uncertain income tax positions will be made.

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

	Payment Period						Total
	2013	2014	2015	2016	2017	After 2017	
Short-term and Long-term debt	\$ 16	\$—	\$500	\$—	\$—	\$ 1,246	\$1,762
Unconditional purchase obligations	454	119	53	8	1	2	637
Operating leases	47	37	32	26	23	37	202
Contributions to defined benefit plans	19	—	—	—	—	—	19
Other	4	3	2	2	2	49	62
	\$540	\$159	\$587	\$36	\$26	\$ 1,334	\$2,682

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Allowance for Doubtful Accounts

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

Inventory Reserves

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

Income Taxes

Our annual tax rate is determined based on our income, statutory tax rates and the tax impacts of items treated differently for tax purposes than for financial reporting purposes. Tax law requires certain items be included in the tax return at different times than the items are recorded in the financial statements. Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences are temporary and reverse over time, such as depreciation expense. These temporary differences result in deferred tax assets and liabilities.

Deferred tax assets generally represent the tax effect of items that can be used as a tax deduction or credit in future years for which we have already recorded the tax benefit in our financial statements. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred, the tax effect of expenditures for which a deduction has already been taken in our tax return but has not yet been recognized in our financial statements or assets recorded at fair value in business combinations for which there was no corresponding tax basis adjustment.

Inherent in determining our annual tax rate are judgments regarding business plans, tax planning opportunities and expectations about future outcomes. Realization of certain deferred tax assets is dependent upon generating sufficient taxable income in the appropriate jurisdiction prior to the expiration of the carryforward periods. Although realization is not assured, management believes it is more likely than not that our deferred tax assets, net of valuation allowances, will be realized.

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

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

Acquisitions, Goodwill and Intangibles, and Long-Lived Assets

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

Significant judgment is required in estimating the fair value of intangible assets and in assigning their respective useful lives. Accordingly, we typically obtain the assistance of third-party valuation specialists for significant items. The fair value estimates are

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based on available historical information and on future expectations and assumptions deemed reasonable by management but are inherently uncertain.

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

Determining the useful life of an intangible asset also requires judgment. The majority of our acquired intangible assets (e.g., certain trademarks or brands, customer relationships, patents and technologies) are expected to have determinable useful lives. Our assessment as to the useful lives of these intangible assets is based on a number of factors including competitive environment, market share, trademark and/or brand history, underlying product life cycles, operating plans and the macroeconomic environment of the countries in which the trademarks or brands are sold. Our estimates of the useful lives of determinable-lived intangibles are primarily based on these same factors. Determinable-lived intangible assets are amortized to expense over their estimated useful life.

In certain of our acquisitions, we acquire in-process research and development (IPRD) intangible assets. IPRD is considered to be an indefinite-lived intangible asset until such time as the research is completed (at which time it becomes a determinable-lived intangible asset) or determined to have no future use (at which time it is impaired).

The value of indefinite-lived intangible assets and residual goodwill is not amortized but is tested at least annually for impairment. Our impairment testing for goodwill is performed separately from our impairment testing of indefinite-lived intangibles. We perform our annual impairment test for goodwill in the fourth quarter of each year. We have adopted the provisions of Accounting Standards Update (ASU) No. 2011-08, Intangibles - Goodwill and Other: Testing Goodwill for Impairment, which permits us to consider qualitative indicators of the fair value of a reporting unit when it is unlikely that a reporting unit has impaired goodwill. In certain circumstances, we may also utilize a discounted cash flow analysis that requires certain assumptions and estimates be made regarding market conditions and our future profitability. In those circumstances we test goodwill for impairment by reviewing the book value compared to the fair value at the reporting unit level. We test individual indefinite-lived intangibles by reviewing the individual book values compared to the fair value.

We determine the fair value of our reporting units and indefinite-lived intangible assets based on the income approach. Under the income approach, we calculate the fair value of our reporting units and indefinite-lived intangible assets based on the present value of estimated future cash flows. Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows to measure fair value. Assumptions used in our impairment evaluations, such as forecasted growth rates and cost of capital, are consistent with internal projections and operating plans. We believe such assumptions and estimates are also comparable to those that would be used by other marketplace participants.

We did not recognize any material impairment charges for goodwill during the years presented, as our annual impairment testing indicated that all reporting unit goodwill fair values exceeded their respective recorded values. Future changes in the judgments, assumptions and estimates that are used in our impairment testing for goodwill and indefinite-lived intangible assets, including discount and tax rates or future cash flow projections, could result in significantly different estimates of the fair values. A significant reduction in the estimated fair values could result in impairment charges that could materially affect our financial statements.

We review long-lived assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The evaluation is performed at the lowest level of identifiable cash

flows, which is at the individual asset level or the asset group level. The undiscounted cash flows expected to be generated by the related assets are estimated over their useful life based on updated projections. If the evaluation indicates that the carrying amount of the assets may not be recoverable, any potential impairment is measured based upon the fair value of the related assets or asset group as determined by an appropriate market appraisal or other valuation technique. Assets classified as held for sale, if any, are recorded at the lower of carrying amount or fair value less costs to sell.

Legal and Other Contingencies

We are involved in various ongoing proceedings, legal actions and claims arising in the normal course of business, including proceedings related to product, labor and intellectual property, and other matters that are more fully described in "Other Information" below and in Note 6 to the Consolidated Financial Statements. The outcomes of these matters will generally not be known for prolonged periods of time. In certain of the legal proceedings, the claimants seek damages, as well as other compensatory and

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equitable relief, that could result in the payment of significant claims and settlements and/or the imposition of injunctions or other equitable relief. For legal matters for which management has sufficient information to reasonably estimate our future obligations, a liability representing management's best estimate of the probable loss, or the minimum of the range of probable losses when a best estimate within the range is not known, for the resolution of these legal matters is recorded. The estimates are based on consultation with legal counsel, previous settlement experience and settlement strategies. If actual outcomes are less favorable than those projected by management, additional expense may be incurred, which could unfavorably affect future operating results.

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

NEW ACCOUNTING PRONOUNCEMENTS

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

OTHER INFORMATION

Hedging and Derivative Financial Instruments

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

We enter into forward currency exchange contracts to mitigate the impact of currency fluctuations on transactions denominated in nonfunctional currencies, thereby limiting risk that would otherwise result from changes in exchange rates. These nonfunctional currency exposures principally relate to intercompany receivables and payables arising from intercompany purchases of manufactured products. The periods of the forward currency exchange contracts correspond to the periods of the exposed transactions, with realized gains and losses included in the measurement and recording of transactions denominated in the nonfunctional currencies. All forward currency exchange contracts are recorded at their fair value each period, with resulting gains (losses) included in our Consolidated Statements of Earnings.

The estimated fair value of forward currency exchange contracts represents the measurement of the contracts at month-end spot rates as adjusted by current forward points. A hypothetical 10% change in foreign currencies relative to the United States dollar would change the December 31, 2012 fair value by approximately \$10. We are exposed to credit loss in the event of non performance by counterparties on our outstanding forward currency exchange contracts, but we do not anticipate nonperformance by any of our counterparties.

We have certain investments in net assets in international locations that are not hedged. These investments are subject to translation gains and losses due to changes in foreign currency exchange rates. For 2012 the strengthening of foreign currencies relative to the United States dollar increased the value of these investments in net assets and the related foreign currency translation adjustment gain in shareholders' equity by \$50, to \$226 from \$176 as of December 31, 2011.

Legal and Regulatory Matters

On June 28, 2012 we voluntarily recalled our Rejuvenate and ABG II modular-neck hip stems and terminated global distribution of these hip products. We notified healthcare professionals and regulatory bodies of this recall, which was taken due to potential risks associated with fretting and/or corrosion that may lead to adverse local tissue reactions. Product liability lawsuits relating to this voluntary recall have been filed against us. As previously announced, we intend to reimburse implanted patients for reasonable and customary costs of testing and treatment services, including

any necessary revision surgeries. We continue to work with the medical community to evaluate the data and further understand this matter and the associated costs. The ultimate total cost with respect to this matter will depend on many factors that are difficult to predict with the limited information received to date and may vary materially based on the number of and actual costs of patients seeking testing and treatment services, the number of and actual costs of patients requiring revision surgeries, the number of and actual costs to settle lawsuits filed against us, and the amount of third-party insurance recoveries. Based on the information that has been received, we estimate the probable loss to resolve this matter to be in the range of approximately \$190 to \$390, before third-party insurance recoveries.

Accordingly, in December 2012 we recorded a charge to earnings of \$174 representing the excess of the \$190 minimum of the range over the previously recorded reserves. No contingent gain

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for third-party recoveries was recorded as of December 31, 2012. As noted above, the final outcome of this matter is dependent on many variables that are difficult to predict. The ultimate cost to entirely resolve this matter may be materially different than the amount of the current estimate and accruals and could have a material adverse effect on our financial position, results of operations and cash flows.

In 2010 we received a subpoena from the United States Department of Justice (DOJ) related to the sales and marketing of the OtisKnee device. The subpoena concerns allegations of violations of Federal laws related to sales of a device not cleared by the United States Food and Drug Administration (FDA). We entered into discussions with the DOJ regarding the potential resolution of this matter and, in the second quarter of 2012 we recorded a non-tax deductible charge of \$33 for this matter. We continue to discuss this matter with the DOJ, but there can be no assurance that we will reach a consensual resolution rather than seeking a resolution through the courts. While we believe we have strong arguments to defend against these allegations, if our defense is ultimately unsuccessful we estimate that it is reasonably possible that the total cost to resolve this matter may be approximately two times greater than the amount we have accrued. The final outcome of this matter is difficult to predict, and the ultimate cost to resolve this matter may be materially different than the amount of the current estimate and accruals and could have a material adverse effect on our financial position, results of operations and cash flows.

In 2010 a shareholders' derivative action complaint against certain of our current and former Directors and Officers was filed in the United States District Court for the Western District of Michigan Southern Division. This lawsuit was brought by the Westchester Putnam Counties Heavy and Highway Laborers Local 60 Benefit Funds and Laborers Local 235 Benefit Funds. The complaint alleged claims for breach of fiduciary duties and gross mismanagement in connection with certain product recalls, FDA warning letters, government investigations relating to physician compensation and the criminal proceeding brought against our Biotech division. We recently entered into a settlement agreement that requires changes to certain of Stryker's corporate governance practices.

For each of the following legal matters the final outcome is dependent on many variables and cannot be predicted. Accordingly, it is not possible at this time for us to estimate any material loss or range of losses. However, the ultimate cost to resolve these matters could have a material adverse effect on our financial position, results of operations and cash flows.

In April 2011 lawsuits brought by Hill-Rom Company, Inc. and affiliated entities (Hill-Rom) against us were filed in the United States District Court for the Western District of Wisconsin and the United States District Court for the Southern District of Indiana. The Wisconsin lawsuit was subsequently transferred to the United States District Court in Indiana. The suits allege infringement under United States patent laws with respect to certain patient handling equipment we manufactured and sold and seek damages and permanent injunctions. The first lawsuit involved ten patents related to the use of a motorized wheel for hospital beds and stretchers. We recently entered into an agreement settling that lawsuit. This agreement included a payment to Hill-Rom of \$3.75, a covenant not to sue and a cross-license. The second lawsuit involves nine patents related to electrical network communications for hospital beds. The case has been stayed with respect to six of the patents, which are currently under reexamination by the United States Patent Office. With respect to the suit and the three remaining patents, we continue to vigorously defend ourselves. The ultimate resolution of the second suit may have no relation to the resolution of the first suit and cannot be predicted; however, the ultimate cost could have a material adverse effect on our financial position, results of operations and cash flows.

In 2010 we received a subpoena from the DOJ related to sales, marketing and regulatory matters related to the Stryker PainPump. We recently received requests for certain documents in connection with this investigation. The investigation is ongoing and we are fully cooperating with the DOJ regarding this matter.

In 2007 we disclosed that the United States Securities and Exchange Commission (SEC) made an inquiry of us regarding possible violations of the Foreign Corrupt Practices Act in connection with the sale of medical devices in certain foreign countries. Subsequently, in 2008, we received a subpoena from the United States DOJ, Criminal Division, requesting certain documents for the period since January 1, 2000 in connection with the SEC inquiry. We are fully cooperating with the DOJ and the SEC regarding these matters.

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We consider our material area of market risk exposure to be exchange rate risk. Quantitative and qualitative disclosures about exchange rate risk are included in the "Other Information" section of Management's Discussion and Analysis of Financial Condition in Item 7, under the caption "Hedging and Derivative Financial Instruments" on page 19.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED
FINANCIAL STATEMENTS

The Board of Directors and Shareholders of Stryker Corporation:

We have audited the accompanying consolidated balance sheets of Stryker Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of earnings and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stryker Corporation and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Stryker Corporation's internal control over financial reporting as of December 31, 2012, 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 27, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP
Grand Rapids, Michigan
February 27, 2013

Stryker Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

	Years Ended December 31		
	2012	2011	2010
Net sales	\$8,657	\$8,307	\$7,320
Cost of sales	2,781	2,811	2,286
Gross profit	5,876	5,496	5,034
Research, development and engineering expenses	471	462	394
Selling, general and administrative expenses	3,466	3,150	2,707
Intangible asset amortization	123	122	58
Property, plant and equipment impairment	—	—	124
Restructuring charges	75	76	—
Total operating expenses	4,135	3,810	3,283
Operating income	1,741	1,686	1,751
Other income (expense), net	(36)	) —	(22)
Earnings before income taxes	1,705	1,686	1,729
Income taxes	407	341	456
Net earnings	\$1,298	\$1,345	\$1,273
Net earnings per share of common stock:			
Basic net earnings per share of common stock	\$3.41	\$3.48	\$3.21
Diluted net earnings per share of common stock	\$3.39	\$3.45	\$3.19
Weighted-average shares outstanding—in millions:			
Basic	380.6	386.5	396.4
Net effect of dilutive employee stock options	2.4	3.0	3.1
Diluted	383.0	389.5	399.5
Anti-dilutive shares excluded from the calculation of net effect of dilutive employee stock options	6.4	7.8	7.5

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2012	2011	2010
Net earnings	\$1,298	\$1,345	\$1,273
Unrealized gains (losses) on securities, net of income tax benefit (expense) [(\$1) in 2012, \$1 in 2011, \$0 in 2010]	4	(2)	(2)
Unfunded pension gains (losses), net of income tax benefit (expense) [\$25 in 2012, \$8 in 2011, \$14 in 2010]	(69)	) 12	(21)
Foreign currency translation adjustments	50	(20)	(81)
Total other comprehensive loss	(15)	) (10)	(104)
Comprehensive income	\$1,283	\$1,335	\$1,169

See accompanying notes to Consolidated Financial Statements.

Stryker Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	December 31	
	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,395	\$905
Marketable securities	2,890	2,513
Accounts receivable, less allowance of \$58 (\$56 in 2011)	1,430	1,417
Inventories		
Materials and supplies	202	185
Work in process	71	46
Finished goods	992	1,052
Total inventories	1,265	1,283
Deferred income taxes	811	777
Prepaid expenses and other current assets	357	312
10.8	(7.0)	6.7

Consolidated Net Sales

Consolidated net sales in the three months increased 1.3% as reported and 5.9% in constant currency, as net sales were negatively impacted by 4.6% due to the impact of foreign currency exchange rates. Excluding the 0.6% impact of acquisitions, net sales increased 5.3% in constant currency, including 6.6% from increased unit volume partially offset by 1.3% lower prices. The increase was led primarily by higher shipments of neurotechnology, trauma and extremities, instruments and medical products.

Consolidated net sales in the nine months increased 2.5% as reported and 7.0% in constant currency, as net sales were negatively impacted by 4.5% due to the impact of foreign currency exchange rates. Excluding the 1.0% impact of acquisitions, net sales increased 5.9% in constant currency, including 7.5% from increased unit volume partially offset by 1.5% lower prices. The increase was led primarily by higher shipments of trauma and extremities, medical, neurotechnology and instruments products.

Orthopaedics Net Sales

Orthopaedics net sales in the three months increased 0.3% as reported and 5.8% in constant currency, as net sales were negatively impacted by 5.5% due to the impact of foreign currency exchange rates. Excluding the 0.3% impact of acquisitions, net sales increased 5.5% in constant currency, including 7.7% from increased unit volume partially offset by 2.2% lower prices. The increase was led primarily by higher shipments of trauma and extremities products.

Orthopaedics net sales in the nine months increased 1.1% as reported and 6.5% in constant currency, as net sales were negatively impacted by 5.4% due to the impact of foreign currency exchange rates. Excluding the 0.7% impact of acquisitions, net sales increased 5.8% in constant currency, including 8.3% from increased unit volume partially offset by 2.6% lower prices. The increase was led primarily by higher shipments of trauma and extremities products.

MedSurg Net Sales

MedSurg net sales in the three months increased 0.6% as reported and 4.1% in constant currency, as net sales were negatively impacted by 3.5% due to the impact of foreign currency exchange rates. Excluding the 1.3% impact of acquisitions, net sales increased 2.8% in constant currency, including 2.9% from increased unit volume partially offset by 0.1% lower prices. The increase was

led primarily by higher shipments of our instruments and medical products.

MedSurg net sales in the nine months increased 3.0% as reported and 6.4% in constant currency, as net sales were negatively impacted by 3.4% due to the impact of foreign currency exchange rates. Excluding the 1.8% impact of acquisitions, net sales increased 4.6% in constant currency, including 4.7% from increased unit volume partially offset by 0.1% lower prices. The increase was led primarily by higher shipments of our medical and instruments products.

Neurotechnology and Spine Net Sales

Neurotechnology and Spine net sales in the three months increased 5.0% as reported and 9.9% in constant currency as net sales were negatively impacted by 4.9% due to the impact of foreign currency exchange rates. Net sales in constant currency increased 11.7% from increased unit volume partially offset by 1.7% lower prices. The increase was led primarily by higher shipments of neurotechnology products.

Neurotechnology and Spine net sales in the nine months increased 4.5% as reported and 9.4% in constant currency as net sales were negatively impacted by 4.8% due to the impact of foreign currency exchange rates. Excluding the 0.2% impact of acquisitions, net sales in constant currency increased 11.4% from increased unit volume partially offset by 2.2% lower prices. The increase was led primarily by higher shipments of neurotechnology products.

Cost of Sales

Cost of sales as a percentage of net sales in the three months decreased to 32.9% from 34.7% in 2014, primarily due to product mix, the favorable impact of foreign currency exchange rates and higher acquisition inventory step up amortization in 2014. Cost of sales in 2015 and 2014 includes (\$6) and \$10, respectively, related to inventory that was stepped up to fair value following acquisitions, and \$2 and (\$1), respectively, of restructuring-related costs.

Excluding the impact of the acquisition and restructuring-related costs described above, cost of sales as a percentage of net sales was 33.1% and 34.3% in 2015 and 2014, respectively.

Cost of sales as a percentage of net sales in the nine months decreased to 33.9% from 34.3% in 2014, primarily due to the product mix and the favorable impact of foreign currency exchange rates. Cost of sales in 2015 and 2014 also includes \$7 and \$24, respectively, related to inventory that was stepped up to fair value following acquisitions and \$4 of restructuring-related costs in 2015.

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Excluding the impact of the acquisition and restructuring-related costs described above, cost of sales as a percentage of net sales was 33.7% and 33.9% for the nine months 2015 and 2014.

Research, Development and Engineering Expenses

Research, development and engineering expenses for the three months increased 1.3% to \$155 and was 6.4% of net sales for both years and were unchanged for the nine months at \$461, a decrease to 6.4% of net sales from 6.5% in 2014. The spending levels in 2015 were driven by the timing of spending on projects and investments in new technologies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of net sales for the three months decreased to 36.7% from 36.8% in 2014. 2015 and 2014 includes acquisition and integration-related charges of \$5 and \$14, respectively, and restructuring-related charges of \$20 and \$20, respectively. Excluding the impact of the charges noted above, expenses increased to 35.6% of net sales from 35.3% in 2014, primarily due to increased expenses related to our European regional headquarters and related selling activities partially offset by disciplined expense management.

Selling, general and administrative expenses as a percentage of net sales for the nine months decreased to 36.5% from 36.9% in 2014, primarily due to a \$54 gain from a legal settlement, and in 2015 and 2014 includes acquisition and integration-related charges of \$24 and \$46, respectively, and restructuring-related charges of \$74 and \$54, respectively. Excluding the impact of the gain and the charges noted above, expenses increased to 35.9% of net sales from 35.5% in 2014, primarily due to increased expenses related to our European regional headquarters and related selling activities. In addition, higher compensation costs, due in part to sales performance-related commissions, were partially offset by disciplined expense management.

Recall Charges

Recall charges were due to the previously disclosed Rejuvenate and ABG II modular-neck hip stems voluntary recall and other recall matters and in 2015 and 2014 were \$150 and \$29 in the three months, and \$316 and \$649 in the nine months, respectively. Refer to Note 5 in the Notes to the Consolidated Financial Statements for further information.

Intangibles Amortization

Intangibles amortization in 2015 and 2014 was \$54 and \$50 in the three months and \$152 and \$142 in the nine months, respectively. The increase was primarily due to acquisitions.

Other Income (Expense), net

Other income (expense), net in 2015 and 2014 was \$33 and \$25 in the three months, and \$90 and \$79 in the nine months, respectively.

Income Taxes

The effective income tax rate on earnings was 12.8% and 86.6% for the 2015 and 2014 three months, respectively and 18.3% and 63.5% for the 2015 and 2014 nine months, respectively. The operating impact of our European regional headquarters and certain discrete tax matters are included in our effective tax rate for the 2015 three and nine months. The effective income tax rate for 2014 three and nine months includes the tax impacts of the establishment of a European regional headquarters and the planned cash repatriation.

Net Earnings

Net earnings in the three months increased to \$301 or \$0.79 per diluted share from \$57 or \$0.16 per diluted share in 2014. Adjusted diluted net earnings per share increased 8.7% to \$1.25 in 2015 from \$1.15 in 2014. The impact of foreign currency exchange rates on net earnings reduced adjusted diluted net earnings per share by approximately \$0.06 and \$0.01 in 2015 and 2014, respectively.

Net earnings in the nine months increased to \$917 or \$2.40 per diluted share from \$255 or \$0.67 per diluted share in 2014. Adjusted diluted net earnings per share increased 8.2% to \$3.56 in 2015 from \$3.29 in 2014. The impact of foreign currency exchange rates on net earnings reduced adjusted diluted net earnings per share by approximately \$0.20 and \$0.08 in 2015 and 2014, respectively.

NON-GAAP FINANCIAL MEASURES

We supplement the reporting of our financial information determined under accounting principles generally accepted in the United States (GAAP) with certain non-GAAP financial measures, including percentage sales growth in constant currency; percentage organic sales growth; adjusted gross profit; cost of sales excluding specified items; adjusted selling, general and administrative expenses; adjusted amortization of intangible assets; adjusted operating income; adjusted effective income tax rate; adjusted net earnings; and adjusted diluted net earnings per share (Diluted EPS). We believe that these non-GAAP measures provide meaningful information to assist investors and shareholders in understanding our financial results and assessing our prospects for future performance. Management believes percentage sales growth in constant currency and the other adjusted measures described above are important indicators of our operations because they exclude items that may not be indicative of or are unrelated to our core operating results and provide a baseline for analyzing trends in our underlying businesses. Management uses these non-GAAP financial measures for reviewing the operating results of reportable business segments and analyzing potential future business trends in connection with our budget process and bases certain management incentive compensation on these non-GAAP financial measures.

To measure percentage sales growth in constant currency, we remove the impact of changes in foreign currency exchange rates that affect the comparability and trend of sales. Percentage sales growth in constant currency is calculated by translating current year results at prior year average foreign currency exchange rates. To measure percentage organic sales growth, we remove the impact of changes in foreign currency exchange rates and acquisitions that affect the comparability and trend of sales. Percentage organic sales growth is calculated by translating current year results at prior year average foreign currency exchange rates excluding the impact of acquisitions.

To measure earnings performance on a consistent and comparable basis, we exclude certain items that affect the comparability of operating results and the trend of earnings. These adjustments are irregular in timing, may not be indicative of our past and future performance and are therefore excluded to allow investors to better understand underlying operating trends. The following are examples of the types of adjustments that may be included in a period:

1. Acquisition and integration-related costs. Costs related to integrating recently acquired businesses and specific costs related to the consummation of the acquisition process.
2. Amortization of intangible assets. Periodic amortization expense related to purchased intangible assets.

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3. Restructuring-related charges. Costs associated with focused workforce reductions and other restructuring activities.
4. Recall matters. Our best estimate of the minimum of the range of probable loss to resolve certain product recalls.
5. Regulatory and legal matters. Our best estimate of the minimum of the range of probable loss to resolve certain regulatory matters and other legal settlements.
6. Tax matters. Certain significant and discrete tax items and adjustments to interest expense related to the settlement of certain tax matters.

Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. These adjusted financial measures should not be

considered in isolation or as a substitute for reported sales growth, gross profit, cost of sales, selling, general and administrative expenses, amortization of intangible assets, operating income, effective income tax rate, net earnings and diluted net earnings per share, the most directly comparable GAAP financial measures. These non-GAAP financial measures are an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the reconciliations to corresponding GAAP financial measures at the end of the discussion of Results of Operations below, provide a more complete understanding of our business. We strongly encourage investors and shareholders to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure.

The following reconciles the non-GAAP financial measures of adjusted gross profit; adjusted selling, general and administrative expense; adjusted amortization of intangible assets; adjusted operating income; adjusted net earnings; adjusted effective tax rate; and adjusted diluted net earnings per share with the most directly comparable GAAP financial measures:

2015 Three Months	Gross Profit	Selling, General & Administrative Expenses	Intangible Amortization	Operating Income	Net Earnings	Effective Tax Rate	Diluted EPS
AS REPORTED	\$1,624	\$887	\$ 54	\$378	\$301	12.8	%)0.79
Acquisition and integration-related charges							
Inventory stepped up to fair value	(6	)—	—	(6	)(4	)(0.3	) (0.01
Other acquisition and integration-related	—	(5	)—	5	5	(0.2	) 0.01
Amortization of intangible assets	—	—	(54	) 54	38	2.1	0.12
Restructuring-related charges ²	—	(20	)—	22	15	0.3	0.04
Rejuvenate and other recall matters	—	—	—	150	127	0.3	0.32
Tax matters	—	—	—	—	(6	)1.4	(0.02
ADJUSTED	\$1,620	\$862	\$ —	\$603	\$476	16.4	%)1.25
2014 Three Months	Gross Profit	Selling, General & Administrative Expenses	Intangible Amortization	Operating Income	Net Earnings	Effective Tax Rate	Diluted EPS
AS REPORTED	\$1,560	\$878	\$ 50	\$450	\$57	86.6	%)0.16
Acquisition and integration-related charges							

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Inventory stepped up to fair value	10	—	—	10	6	0.5	0.02
Other acquisition and integration-related	—	(14))—	14	11	0.1	0.03
Amortization of intangible assets	—	—	(50)	) 50	34	1.4	0.09
Restructuring-related charges	(1)	(20)	)—	19	8	1.7	0.02
Rejuvenate and other recall matters	—	—	—	29	23	0.1	0.06
Tax Matters	—	—	—	—	300	(70.5)	) 0.77
ADJUSTED	\$1,569	\$844	\$ —	\$572	\$439	19.9	%)\$1.15
2015 Nine Months	Gross Profit	Selling, General & Administrative Expenses	Intangible Amortization	Operating Income	Net Earnings	Effective Tax Rate	Diluted EPS
AS REPORTED	\$4,782	\$2,640	\$ 152	\$1,213	\$917	18.3	%)\$2.40
Acquisition and integration-related charges							
Inventory stepped up to fair value	7	—	—	7	4	0.2	0.01
Other acquisition and integration-related	—	(24)	)—	24	18	0.2	0.05
Amortization of intangible assets	—	—	(152)	) 152	107	1.6	0.30
Restructuring-related charges	4	(74)	)—	78	58	0.3	0.15
Rejuvenate and other recall matters	—	—	—	316	222	3.8	0.57
Legal matters	—	53	—	(53)	(46))0.2	(0.12)
Tax matters	—	—	—	—	78	(7.0)) 0.20
ADJUSTED	\$4,793	\$2,595	\$ —	\$1,737	\$1,358	17.6	%)\$3.56

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

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2014 Nine Months	Gross Profit	Selling, General & Administrative Expenses	Intangible Amortization	Operating Income	Net Earnings	Effective Tax Rate	Diluted EPS
AS REPORTED	\$4,637	\$2,607	\$ 142	\$778	\$255	63.5	%\$0.67
Acquisition and integration-related charges							
Inventory stepped up to fair value	24	—	—	24	15	0.5	0.04
Other acquisition and integration-related	—	(46)	)—	46	32	0.6	0.08
Amortization of intangible assets	—	—	(142)	) 142	99	1.6	0.26
Restructuring-related charges	—	(54)	)—	54	37	0.7	0.10
Rejuvenate and other recall matters	—	—	—	649	512	(0.8)	) 1.32
Tax matters	—	—	—	—	308	(44.0)	) 0.82
ADJUSTED	\$4,661	\$2,507	\$ —	\$1,693	\$1,258	22.1	%\$3.29

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

LIQUIDITY AND CAPITAL RESOURCES

	Nine Months	
	2015	2014
Net cash provided by operating activities	\$228	\$1,103
Net cash provided by (used in) investing activities	2,541	(1,790)
Net cash (used in) provided by financing activities	(1,302)	)711
Effect of exchange rate changes	(99)	(7)
Change in cash and cash equivalents	\$1,368	\$17

Operating Activities

Cash provided by operations was \$228 and \$1,103 in 2015 and 2014, respectively. This decrease was primarily due to the initial settlement payments to eligible United States patients who had revision surgery to replace their Rejuvenate and/or ABG II Modular-Neck hip stem and the timing of income tax payments.

The net of accounts receivable, inventory and accounts payable resulted in the consumption of \$83 and \$214 of cash in 2015 and 2014, respectively. Inventory days on hand for the 2015 nine months increased by 28 days from December 31, 2014. Inventory days on hand for the 2014 nine months increased by 30 days from December 31, 2013. Accounts receivable days sales outstanding for the 2015 nine months increased by 2 days from December 31, 2014.

Investing Activities

Cash provided by investing activities was \$2,541 in 2015 compared to cash used in investing of \$1,790 in 2014. This change is primarily due to the sale of a portion of our marketable securities in 2015 in preparation for recall-related payments and other cash management activity.

Acquisitions. Acquisitions resulted in cash consumption of \$140 and \$825 in 2015 and 2014, respectively. In 2015 the primary acquisition was CHG and in 2014 the primary acquisitions were Patient Safety Technologies, Inc., Pivot Medical Inc., Berchtold Holding, AG and Small Bone Innovations, Inc.

Capital Expenditures. Capital expenditures were \$191 and \$172 in 2015 and 2014, respectively. Capital expenditures are expected to be higher than 2014 throughout the remainder of 2015.

Marketable Securities. Net cash provided by the sales of marketable securities was \$2,872 in 2015 and net cash used to purchase marketable securities was \$793 in 2014.

Financing Activities

Dividend Payments. Dividends paid per common share increased 13.1% to \$1.035 per share in 2015, compared to \$0.915 in 2014. Total dividend payments to common shareholders were \$391 and \$346 in 2015 and 2014, respectively.

Long-Term and Short-Term Debt. Net repayments of debt were \$501 in 2015, as we repaid our senior unsecured notes that were due on January 15, 2015. Net borrowings were \$1,195 in 2014. Refer to Note 6 in the Notes to the Consolidated Financial Statements for further information.

Share Repurchases. Share repurchases were \$446 and \$100 in 2015 and 2014, respectively.

Liquidity

Cash, cash equivalents and marketable securities were \$3,372 and \$5,000 at September 30, 2015 and December 31, 2014, respectively, and current assets exceeded current liabilities by \$4,480 and \$5,209, respectively. We anticipate being able to support our short-term liquidity and operating needs, including settlements related to the Rejuvenate and ABG II recalls, from a variety of sources, including cash from operations, commercial paper and existing credit lines. In the past we have also raised funds in the capital markets and may continue to do so from time to time in the future. We have strong short-term and long-term debt ratings that we believe should enable us to refinance our debt as it becomes due.

Should additional funds be required, we had approximately \$1,250 of borrowing capacity available under all of our existing credit facilities at September 30, 2015.

At September 30, 2015 approximately 70.8% of our consolidated cash, cash equivalents and marketable securities were held in locations outside the United States. In 2015 we have repatriated approximately \$727 of this cash, and we expect to repatriate additional cash in the fourth quarter. Our remaining cash held in locations outside the United States is considered to be indefinitely reinvested. We intend to use this cash to expand operations, either organically or through acquisitions, outside the United States.

We continually evaluate our receivables, particularly in Spain, Portugal, Italy and Greece (the Southern European Region). Our net receivables in Greece were insignificant. The total net receivables from the Southern European Region were approximately \$143 and \$154 at September 30, 2015 and December 31, 2014, respectively, including approximately \$77 and \$78, respectively, of sovereign receivables. We believe that our current reserves related to receivables are adequate and any additional credit risk associated with the Southern European Region is not expected to have a material adverse impact on our financial position or liquidity. We currently do not have any investments in the sovereign debt instruments of any country in the Southern

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European Region. Any non-sovereign exposure in these countries in our investment portfolios is considered immaterial.

In the 2015 three months we made initial payments of \$1,133 to eligible United States patients who had revision surgery to replace their Rejuvenate and/or ABG II Modular-Neck hip stem as part of the settlement agreement.

Critical Accounting Policies

There have been no significant changes to our critical accounting policies from those disclosed in our Annual Report on Form 10-K for 2014.

New Accounting Pronouncements Not Yet Adopted

Refer to Note 1 in the Notes to the Consolidated Financial Statements for further information.

Guarantees and Other Off-Balance Sheet Arrangements

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

OTHER MATTERS

Legal and Regulatory Matters

As further described in Note 5 to the Consolidated Financial Statements, we recorded additional charges to earnings of \$149 representing the excess of the minimum of the range of probable loss to resolve the Rejuvenate and ABG II recalls over the previously recorded reserves. Based on the information that has been received, the actuarially determined range of probable loss to resolve this matter is estimated to be approximately \$2,027 (\$2,206 before \$179 of third-party insurance recoveries) to \$2,554. The final outcome of this matter is dependent on many variables that are difficult to predict. The ultimate cost to entirely resolve this matter may be materially different than the amount of the current estimate and could have a material adverse effect on our financial position, results of operations and cash flows.

FORWARD-LOOKING STATEMENTS

This report contains statements referring to us that are not historical facts and are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are intended to take advantage of the "safe harbor" provisions of the Reform Act, are based on current projections about operations, industry conditions, financial condition and liquidity. Words that identify forward-looking statements include words such as "may," "could," "will," "should," "would," "possible," "plan," "predict," "forecast," "potential," "anticipate," "estimate," "expect," "project," "intend," "believe," "may impact," "on track," and words and terms of similar substance used in connection with any discussion of future operating or financial performance, an acquisition or our businesses. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These forward-looking statements are not guarantees and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results could differ materially and adversely from these statements.

Some important factors that could cause our actual results to differ from our expectations in any forward-looking statements include those risks discussed in Item 1A. "Risk Factors" of our Annual Report on Form 10-K for 2014.

This Form 10-Q should be read in conjunction with the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for 2014.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We consider our greatest potential area of market risk exposure to be exchange rate risk. Quantitative and qualitative disclosures about exchange rate risk are included in the "Other Information" section of Management's Discussion and Analysis of Financial Condition in Item 7 of our Annual Report on Form 10-K for 2014 under the caption "Hedging and Derivative Instruments" on page 17. There have been no material changes from the information provided therein.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures at September 30, 2015 was carried out under the supervision and with the participation of our management, including our Chairman

and Chief Executive Officer and our Vice President, Chief Financial Officer (the Certifying Officers). Based on that evaluation, the Certifying Officers concluded that our disclosure controls and procedures are effective.

Changes in Internal Controls Over Financial Reporting

There was no change to our internal control over financial reporting during the three months that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY
SECURITIES AND USE OF PROCEEDS.

(c) In March 2015 we announced that our Board of Directors had authorized us to purchase up to \$2,000 of our common stock (the 2015 Repurchase Program). In 2012, we announced that our Board of Directors had authorized us to purchase up to \$405 of our common stock (the 2012 Repurchase Program). The manner, timing and amount of purchases is determined by management based on an evaluation of market conditions, stock price and other factors and is subject to regulatory considerations. Purchases are to be made from time to time in the open market, in privately negotiated transactions or otherwise.

During the three months, we repurchased 1.2 million shares at a cost of \$123 under the 2012 Repurchase Program. At September 30, 2015 the maximum dollar value of shares that may yet be purchased was \$136 under the 2012 Repurchase Program and \$2,000 under the 2015 Repurchase Program.

A summary of the activity pursuant to the Repurchase Programs for the three months is:

Period	Total Number of Shares (in millions)			Maximum Dollar Value of Shares that may yet be Purchased Under the Plans
	Purchased	Purchased as Part of Public Announced Plans	Average Price Paid Per Share	
July 1 - 31, 2015	0.2	0.2	\$96.02	\$2,238
Aug 1 - 31, 2015	0.2	0.2	99.89	2,210
Sep 1 - 30, 2015	0.8	0.8	98.36	\$2,136
Total	1.2	1.2	98.54	

ITEM 6. EXHIBITS

(a)	
10.1	Separation Agreement and Release between Ramesh Subrahmanian and Stryker Corporation, dated as of September 16, 2015
31(i)*	Certification of Principal Executive Officer of Stryker Corporation pursuant to Rule 13a-14(a)
31(ii)*	Certification of Principal Financial Officer of Stryker Corporation pursuant to Rule 13a-14(a)
32(i)*	Certification by Principal Executive Officer of Stryker Corporation pursuant to 18 U.S.C. Section 1350
32(ii)*	Certification by Principal Financial Officer of Stryker Corporation pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

* Furnished with this Form 10-Q

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STRYKER CORPORATION
(Registrant)

October 23, 2015
Date

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

October 23, 2015
Date

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

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EXHIBIT INDEX

10.1	Separation Agreement and Release between Ramesh Subrahmanian and Stryker Corporation, dated as of September 16, 2015 - Incorporated by reference to our Form 8-K dated September 17, 2015 (Commission File No. 000-09165)
Exhibit 31	Rule 13a-14(a) Certifications
(i)*	Certification of Principal Executive Officer of Stryker Corporation
(ii)*	Certification of Principal Financial Officer of Stryker Corporation
Exhibit 32	18 U.S.C. Section 1350 Certifications
(i)*	Certification of Principal Executive Officer of Stryker Corporation
(ii)*	Certification of Principal Financial Officer of Stryker Corporation
Exhibit 101	XBRL (Extensible Business Reporting Language) Documents
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

* Furnished with this Form 10-Q