Stryker Corporation
2000 Annual Report

Fundamentals of Success

Company Overview

Stryker Corporation develops, manufactures and markets specialty surgical and medical products worldwide. These products include orthopaedic implants, trauma systems, powered surgical instruments, endoscopic systems and patient care and handling equipment. Stryker has developed the bone growth factor osteogenic protein-1, which is in the final stage of the marketing authorization process for specific uses in Europe and Australia. The Company also provides outpatient rehabilitative health services in the United States.

Stryker Products and Sales Divisions

ORTHOPAEDICS

Orthopaedic Implants

Howmedica Osteonics
Orthopaedic reconstructive products including hip, knee and shoulder implants. Production facilities in New Jersey, Ireland and France.

Stryker Spine
Spinal implant products. Production facilities in France.

Trauma Systems

Stryker Trauma
Trauma-related products including nailing, plating and external fixation systems. Production facilities in New Jersey, Germany and Switzerland.

Stryker Leibinger
Plating systems, instruments and related products for craniomaxillo-facial surgery; systems for image-guided surgery. Production facilities in Colorado, Michigan and Germany.

Surgical Instruments and Equipment

Stryker Instruments
Powered surgical instruments and other products, such as lavage systems and cement injection systems. Production facilities in Michigan, Puerto Rico and Ireland.

Stryker Endoscopy
Medical video-imaging equipment and instruments for arthroscopy and general surgery. Production facilities in California and Puerto Rico.

Biotechnology

Stryker Biotech
Osteogenic protein-1 (OP-1) bone growth factor. Production facilities in Massachusetts, New Hampshire and Ireland.

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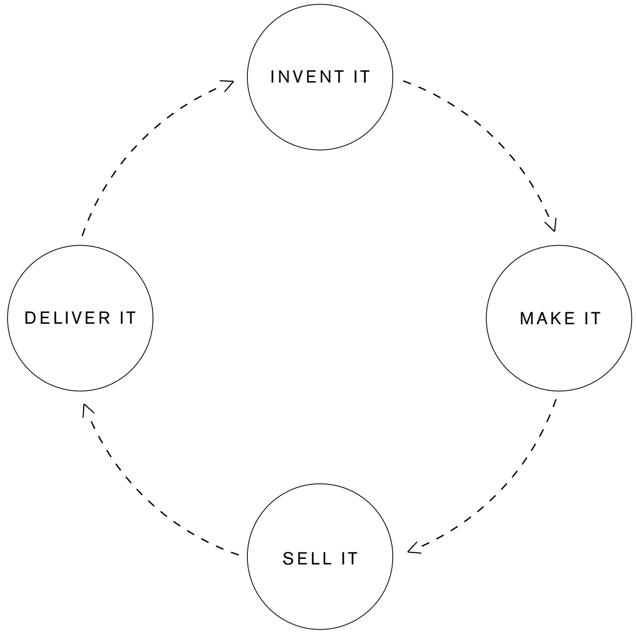


Stryker focuses intently on business fundamentals—developing innovative, best-in-class medical and surgical products, manufacturing and distributing them efficiently and selling them worldwide. We drive our goals to reality with concentration and follow-through at every step from idea to execution. Through this process, we help physicians and other health care providers improve the quality of their patients' lives, provide outstanding career prospects for our employees and deliver positive financial results to our shareholders.

For 21 years and three quarters, until we deliberately assumed debt to acquire Howmedica in late 1998, we delivered 20 percent or better net earnings growth. In 2000, we attained profitability that not only returned us to the Stryker Gold Standard of 20 percent growth but made up for the growth rate detour we took in 1998 and 1999.

To Our Shareholders:

I am extremely pleased to report to you that in 2000, Stryker successfully completed the integration process that has been our focus since the acquisition of Howmedica in December 1998. It is equally gratifying to note that we also returned to our historical rate of growth. When we acquired Howmedica, we announced our intention to be back at 20 percent or better net earnings growth in 2000. Not only did the Company get back on the 20 percent track in 2000, but we did so with profit growth that makes up for the strategic detour of 1998 and 1999. With this return to the Stryker Gold Standard, we have delivered the equivalent of 24 years of growth at the rate of 20 percent or higher.

Now that the integration is complete, the Company is larger in all dimensions—a more forceful presence in the marketplace, with broader and deeper product lines, more employees and higher revenues. We completed the year with strong cash flow and an improving balance sheet due to accelerated debt repayment, generating cash flow from operations of $332 million and reducing debt by $275 million. For the year ending December 31, 2000, Stryker's net sales increased 9 percent, to $2,289 million. Net earnings for the year were $221 million. Excluding nonrecurring items, net earnings increased 37 percent, to $220 million.

A year of accomplishment

The excellent year we experienced in 2000 was the result of our concentration on business fundamentals and the efforts of our management team. I would like to take this opportunity to comment on some of the specific achievements of the year.

Howmedica Osteonics, our orthopaedic implants division, recorded a strong performance, with double-digit sales growth in the United States. This division also began the consolidation of its New Jersey operations for greater productivity. I would like to commend Ned Lipes, Group President of Howmedica Osteonics, for guiding the division through the integration and the subsequent operations improvements.

Stryker Spine, our global spine business, is responsible for Stryker's fastest growing product line, and these spine implants are doing particularly well in the United States, Europe, Japan and Pacific markets.

Our MedSurg Group continued its outstanding track record under the leadership of its president, Si Johnson. Stryker Instruments continues to set the best-in-class standard for surgical instruments in the markets we serve, and Stryker Endoscopy keeps on seizing opportunities for innovation with its Endosuites, operating room control and communication systems and advanced tools for less invasive surgical procedures.

Our physical therapy service business also had another successful year, benefiting from an operational strategy that meets the challenges of today's health care marketplace.

Progress in international sales

We are pleased with the Company's progress in international sales, despite some unfavorable foreign currency situations. Europe, our most challenging market, is making headway in local currency, thanks to the exemplary job that Ron Lawson, President of Stryker Europe, has done in leading the management team, building sales organizations in individual country markets and strengthening ties with clinicians.

While our achievements in Japan have been tempered by government-mandated price reductions, under the leadership of Yoshi Nakazawa we have been able to blunt the impact through greater operating efficiencies. Pacific markets have been encouraging, particularly Korea, and we are poised to take full advantage of emerging opportunities in China.

Prospects for the year ahead

Stryker looks to 2001 with enthusiasm. We anticipate approval by the U.S. Food and Drug Administration (FDA) early in the year for Howmedica Osteonics' ceramic-on-ceramic hip system. Pending FDA approval, this state-of-the-art system will be the first of its kind available in the United States. Its unique design has been winning broad acceptance internationally since its 1998 launch in Europe, Australia and Canada.

We recently achieved an important milestone for our bone growth factor OP-1 as the European Union and Australia took the penultimate steps toward marketing authorization. We believe that we will receive full approval in Europe and Australia during the first half of 2001 for the use of OP-1 in the treatment of specific nonunion fractures of the tibia. These approvals will be particularly significant because they will be the first granted for a biotechnology product specifically for an orthopaedic indication. In the United States, our premarket approval (PMA) filing for OP-1 for the same clinical indication met with a setback in January 2001, when the FDA recommended that we conduct a new clinical trial to support marketing approval. The Company continues to believe in the safety and efficacy of OP-1 in treating nonunion tibial fractures, and we are in discussions with the FDA on how best to proceed. It is important to note that we are also pursuing additional clinical trials for OP-1 and expect to begin a pivotal spine fusion trial in 2001. We look forward to rewarding our shareholders' patience and perseverance during the development of OP-1 and to the benefits this product will provide to individual patients and to the advancement of science overall.

In 2001, we also expect to realize the potential of exciting new technologies and investments, such as the recently launched surgical navigation system from our Leibinger division.

Operations improvements

Throughout the Company, we made tremendous progress in increasing service levels in our manufacturing plants through careful monitoring and operations improvements. Now nearly all our plants have attained or are within close reach of the service levels of the Howmedica Osteonics and Stryker Instruments facilities, which have put Stryker on the honor roll of *IndustryWeek* magazine's Best Plants twice in the last three years.

None of our accomplishments this year, or our expectations for the future, would have been possible without the skill and dedication of the employees in every facet of our business around the world. I want to thank each one of them for contributing to the completion of the integration and to the Company's exceptional performance in 2000.

Sincerely,

John W. Brown
Chairman, President and Chief Executive Officer

{ INVENT IT }

From the Company's founding, developing innovative products has been a primary source of Stryker's success. Today, we are marketing breakthrough products ranging from ceramic-on-ceramic hip implants to wireless surgical navigation systems. Stryker's tradition of product innovation has resulted in more than 1,500 current patents around the world.

TRIDENT CERAMIC ACETABULAR SYSTEM

Stryker continues its advancements in hip reconstruction technologies with the Trident Ceramic Acetabular System. The Trident hip has alumina ceramic bearing surfaces, which in laboratory tests have shown more than 200 times less wear than conventional polyethylene and metal. This unique design is expected to be approved by the FDA in early 2001, making it the first contemporary ceramic-on-ceramic system available in the United States.

DURACON TOTAL STABILIZER

Stryker's knee implant line addresses the full spectrum of treatment from early intervention to fusion, and it offers options for both primary and revision surgery. The Duracon Total Stabilizer, launched in late 1999, added a revision option to this leading knee design. In early 2000, a revision system was introduced for Stryker's innovative and widely used Scorpio knee. These two revision systems were significant sales growth drivers in 2000.

XIA SPINAL SYSTEM

Since its introduction in 1999, the Xia Spinal System has demonstrated excellent growth due to its best-in-class implants, Reliance instrument technology and overall ease of use for surgeons and nurses. This rod and screw fixation system is designed to help relieve pain by stabilizing the spine. Its performance was a major factor in the doubling of spine product sales in the United States this year.

Endosuites, introduced by Stryker Endoscopy in 1992, represent a major innovation in operating room design. Now installed at hundreds of hospitals across the United States, these fully functional operating suites support minimally invasive surgery across virtually all specialties by enhancing efficiency and ergonomics through integrated technology. Endosuites offer opportunities for significantly improving both procedure and turnover time, and they can support telemedicine, referral, record keeping and billing. The Endosuite shown here is located at Presbyterian University Hospital, part of the University of Pittsburgh Medical Center.

TOTAL PERFORMANCE SYSTEM
The console for the TPS system of high-speed, micropowered surgical instruments. Supports multiple drills, saws and other handpieces for varied types of surgical procedures.

FLAT-PANEL DISPLAYS
Ergonomically designed to be easily positioned for viewing according to the surgeon's requirements. Multiplatform technology incorporates both video images and digital inputs in the operating room.

3-CHIP 888 CAMERA
The only endoscopic camera to offer the precision and control of digital tuning for each specialty and digital zoom operation. Shown connected to its control box and light source with a 10 millimeter auto-clavable laparoscope attached.

SWITCHPOINT 3

Controls all operating room equipment. New technologies facilitate communications outside the operating room for diagnostics and teaching.

HERMES CONTROL SYSTEM

Integrates Stryker's minimally invasive surgical equipment and allows the surgeon direct control through voice and hand-held touch screen commands. The headset is shown on the operating table.

INFRAVISION IR ILLUMINATOR

Employs advanced infrared technology to increase safety and control in laparoscopic procedures by assisting in anatomical identification and management. Works in conjunction with the 3-chip camera.

SDC PRO

An advanced digital capture device that revolutionizes surgical documentation by digitally converting images and video directly to a CD or hospital network.

Stryker views innovation as a vital, evolving process. We develop best-in-class products for a spectrum of orthopaedic and other medical needs and then continue to update, refine and improve them even as we develop entirely new products. Through this process of supporting proven successes while investing in tomorrow's leading-edge products, we earn the trust of individual surgeons, nurses, hospitals and buying groups. Our guiding precepts are to promote the best possible clinical outcomes while emphasizing safety for patients and clinical staff, efficiency and ease of use. We offer a wide array of solutions and comprehensive product lines in order to meet patient needs, surgeon preferences and hospital requirements, and we seek to make those solutions patentable and global, with variations that are appropriate to key regional markets.

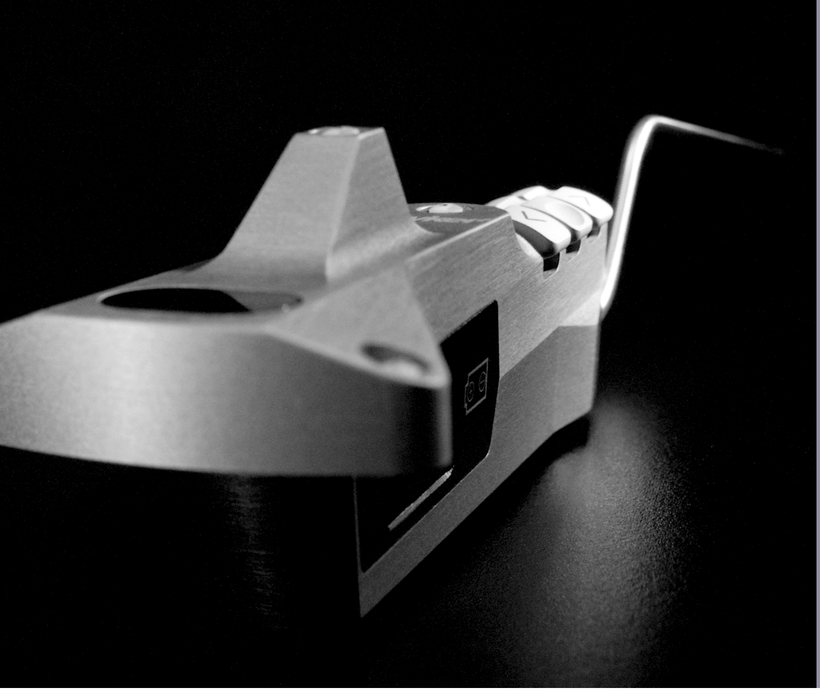
New inventions launched

The record of the past year clearly illustrates our process of ongoing innovation. During 2000, we launched groundbreaking new products and readied others for 2001 introductions.

Stryker's Leibinger division, whose core business is surgery of the head and neck, launched the unique Stryker Navigation System for image-guided surgery to the enthusiastic response of a growing market. Image-guided surgery, which employs preoperative magnetic resonance imaging (MRI) or computer tomography imaging (CT) scans to enable the surgeon to identify key anatomical landmarks during surgery, has become the standard of care in neurosurgery and is growing for ear, nose and throat and spinal indications. Stryker's is the only system on the market with two-way active wireless communication for the tracking of instruments by the camera during surgery. It is also the only system that allows the surgeon control of the imagery from the surgical instrument.

At year-end, Stryker Instruments introduced the Neptune Waste Management System, a self-contained device for handling and disposing of fluid and smoke waste from surgical procedures. This innovation is designed to increase the safety of patients and medical staff while facilitating efficient waste disposal and utilization of operating rooms. With billions of pounds of infectious waste generated annually in hospitals and medical facilities and safety an increasing concern, the market for the Neptune system shows much promise.

Pending FDA approval, which we anticipate early in 2001, Stryker is ready to launch the Trident hip system in the United States. This advanced product is geared to the needs of younger, more active hip replacement patients, and it has been received favorably in international markets since 1998. Trident's alumina ceramic bearing surfaces provide many benefits, the most important of which is the reduction of wear in the laboratory by more than 200 times compared with conventional metal on polyethylene bearing surfaces. The



STRYKER NAVIGATION SYSTEM

The Stryker Navigation System offers unique features for image-guided surgery, which is becoming increasingly important in neurological, spinal, and ear, nose and throat applications. Only our system provides two-way active wireless communication through infrared signals between the surgical instrument and the camera.

Trident system features a ceramic insert with a protective titanium sleeve to enhance strength and help prevent damage. Additionally, the product design allows the surgeon to substitute a polyethylene insert during surgery if a specific patient situation warrants.

Advanced materials and comprehensive lines

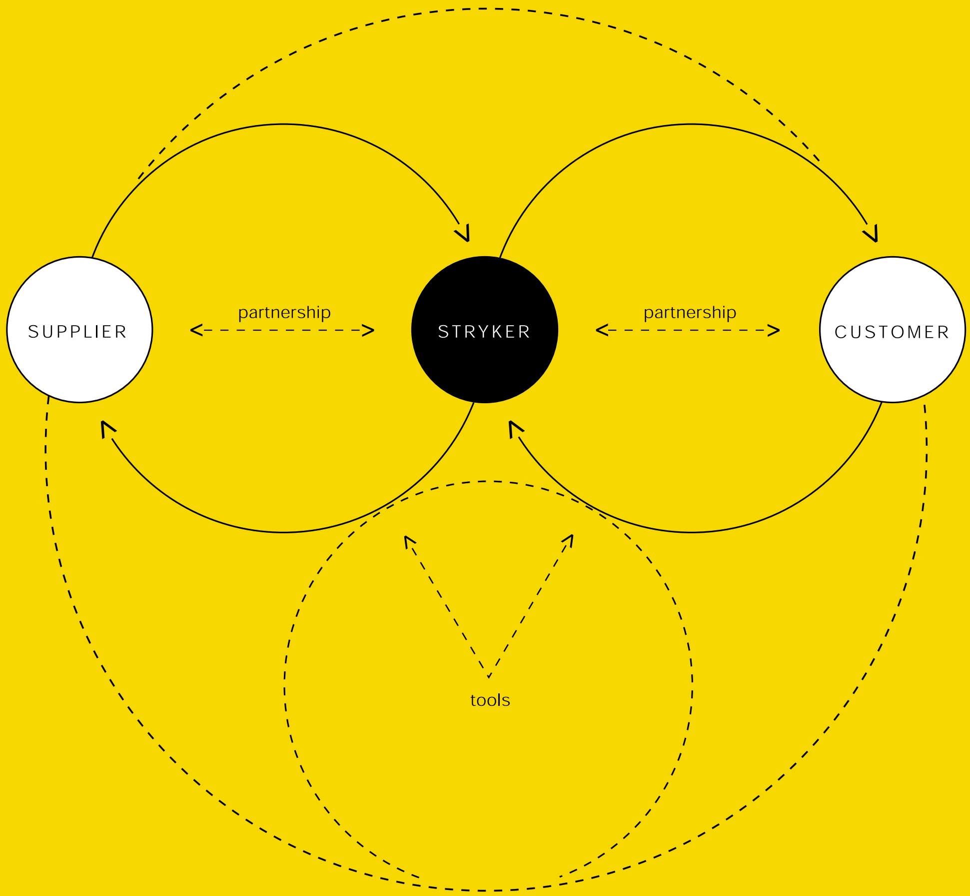
We strive to improve even the most successful existing products through continual upgrading to more advanced materials. For example, we are now extending the use of highly crosslinked polyethylene, which dramatically reduces wear in hip implants, across our broad line of hip systems. In 2000, half of all the hip socket shells we sold in the United States were lined with our Crossfire brand of this material, double the percentage in 1999. We also adapted a clinically established hip implant design in a revolutionary new material with the launch of the Citation TMZF hip in the fall of 2000. The proprietary beta titanium alloy used in this new hip adds 25 percent more flexibility and 15 percent more strength to the implant.

Stryker works to make our product lines ever more comprehensive. In 1999 and early 2000, Howmedica Osteonics introduced revision implants in our widely used Restoration hip and Duracon and Scorpio knee lines. These were responsible for substantial growth in 2000. We have also adapted successful products to the needs of local markets. This year, we developed Superflex, a new product in our Scorpio line, to accommodate specific range-of-motion requirements in Japanese culture. Additionally, we innovate to provide surgeons with the simplest way to exercise their best judgment during surgery. A new variation on our Solar Upper Extremity System, for example, enables a surgeon to adjust the same implant in either of two ways during a procedure in order to provide optimal shoulder stability for an individual patient.

{ MAKE IT }

Stryker's manufacturing and distribution are continually enhanced through the adoption of state-of-the-art practices that heighten efficiency, promote quality, reduce inventory, support customization, improve service levels and lower costs. In fact, in the last three years, two Stryker manufacturing facilities have been honored as *IndustryWeek* Best Plants.

ELEMENTS OF MANUFACTURING EXCELLENCE



Partnerships are key elements of Stryker's success in manufacturing and distribution. Working with our suppliers, we innovate to reduce cycle times and heighten productivity. Working with our customers, we innovate to raise quality and service levels. We use careful metrics and state-of-the-art analytical tools, but we also rely on values–work force empowerment, commitment and trust.

In 2000, the Stryker Instruments manufacturing facility in Kalamazoo, Michigan, was named to the roster of Best Plants by *IndustryWeek* magazine, based on an evaluation of more than 300 metrics. A few key statistics: 100 percent of the plant's workforce participates in self-directed work teams; 99.9 percent of finished products meet quality requirements on the first pass; service levels stand at 98 percent; productivity per employee has more than doubled in the past five years, while defect rates and energy costs have been reduced dramatically.

A major component of Stryker's success is the optimal use of resources in manufacturing and distribution. Taking advantage of both information technology and leading-edge workflow management practices, we monitor quality and service levels at our 16 plants throughout North America and Europe for continuous improvement. This attention to operations has resulted in the inclusion of Stryker facilities in the elite *IndustryWeek* Best Plants list twice in the last three years. The Stryker Instruments plant in Kalamazoo, Michigan, was named one of the Best Plants in 2000, and the Howmedica Osteonics facility in Allendale, New Jersey, was honored in 1998.

Team-based manufacturing

Central to the success of Stryker manufacturing operations is the practice of team-based manufacturing. Under this system, teams are autonomous units, with complete access to online documentation. Each team is responsible for its operating budget and cost reduction targets, production planning and forecasting, purchasing, inventory, customer service levels, training, safety and overall problem solving. Team members also visit customer sites to see their products in use and work closely with marketing, sales and research and development personnel.

This approach yields dramatic results. At Stryker Instruments, for example, productivity per employee has more than doubled in the last five years, and the in-plant defect rate has been cut by 62 percent. Today, more than 99 percent of products meet quality standards at initial inspection and 98 percent of deliveries are on time. This approach, together with other new practices, promotes the inventory reduction and increased service levels that are critically important to the bottom line. Because of such outstanding results, team-based manufacturing is now being widely implemented throughout the Company.

Manufacturing initiative at Howmedica Osteonics

In 2000, Howmedica Osteonics launched a major manufacturing initiative as the final step in the integration of the Howmedica and Osteonics facilities in New Jersey. Formerly dispersed in more than a dozen buildings throughout the state, most operations for the division are being consolidated in one major campus in Mahwah, New Jersey, which will be the primary manufacturing site and will also bring together all of the division's product development, distribution, marketing and administration activities. At the end of 2000, all Howmedica Osteonics implants were being distributed from Mahwah, and the move of the other functions

OP-1

In 2000, Stryker Biotech advanced two important steps toward approval of OP-1 in Europe through compliance with Good Manufacturing Practice at its plants in New Hampshire (shown here), Massachusetts and Ireland and a unanimous positive opinion for marketing authorization. We anticipate that OP-1 will receive final approval for specific uses in Europe and Australia in the first half of 2001.

will be completed in 2002. This new campus will promote efficiency, communication and cost reduction in all aspects of the enterprise. For customers, a primary benefit has been the full integration of the former Howmedica and Osteonics order systems.

Other manufacturing advances

Manufacturing advanced throughout the Company this year. Stryker Spine doubled its manufacturing capacity and created a new global distribution facility in Bordeaux, France. Stryker Trauma reorganized its three plants in Switzerland and Germany, dedicating each to a single product line.

The European Agency for the Evaluation of Medicinal Products (EMEA) determined Stryker Biotech to be in compliance with Good Manufacturing Practice (GMP), and the European Committee for Proprietary Medical Products (CPMP) issued a unanimous positive opinion for marketing authorization of this division's OP-1, a patented human protein molecule that contributes significantly to bone regeneration, for treatment of specific types of nonunion fractures of the tibia. In February 2001, the Australian Drug Evaluation Committee (ADEC) adopted a similar positive opinion for a broader class of nonunion tibial fractures. Final approval for these indications is expected in both Europe and Australia during the first half of 2001. In the United States, we are in discussions with the FDA about their recommendation for a new study to address issues of statistical equivalence with the control treatment.

{ SELL IT }

Stryker has built powerful sales organizations throughout its divisions and supports them with strong leadership, infrastructure, training and service. Together, our sales forces now number more than 2,500 professionals around the globe. A significant part of our sales success results from our close relationships with our customers.

STRYKER MEDICAL'S ZOOM DRIVE

Stryker Medical's Zoom Drive finished its first full year on the market with strong sales, in spite of a low-growth market for in-patient hospital beds. This advanced critical care product is the first and only motorized patient handling device that increases patient mobility without requiring transfers for specialized medical procedures, and its design helps reduce strain and injury to hospital staff.

Selling Solutions

Known throughout the industry for the expertise and dedication of its sales forces, Stryker is stronger than ever with the completion of the integration of the former Howmedica and Osteonics sales professionals into a unified orthopaedic implant sales team. Stryker reps who sell orthopaedic implants, powered instruments and endoscopy systems actually spend the majority of their time interacting with surgeons. Such close customer contact and constant feedback enable us to sell solutions, incorporating customers' ideas and suggestions into the development process.

A tradition of sales growth

In order to have the maximum number of expert reps in the field, making calls, closing sales and learning about varied customer needs and preferences, we invest substantially in recruitment and ongoing training and support. That investment is well justified by solid sales results. Across our divisions, double-digit sales growth is the norm, and specific products often grow at a rate several times above the market. The best-in-class quality of our products helps hospitals and buying groups establish standards, and our complete product lines and spectrum of types within a category suit varied preferences.

We strive to have sales reps focused on specific product lines and the needs of a particular market segment. Increased attention to trauma and spine sales in the United States is yielding outstanding results. Building on our success with trauma products in Europe, we have added reps and a system of area trauma managers in the United States, resulting in continued growth for internationally established products. The U.S. spine sales force, which added ten reps in 2000, doubled sales this year in Stryker's fastest growing clinical market.

Stryker Instruments maintains market leadership by continually improving its highly successful powered surgical instruments. Our fourth generation of heavy-duty, battery-powered bone saws and drills for total joint replacement attained 2000 sales growth that was several times the rate of the market. In our Total Performance System (TPS) of micropowered instruments, the universal driver and U2 drill were redesigned this year for increased speed, heightened operating efficiency and reduced noise levels.

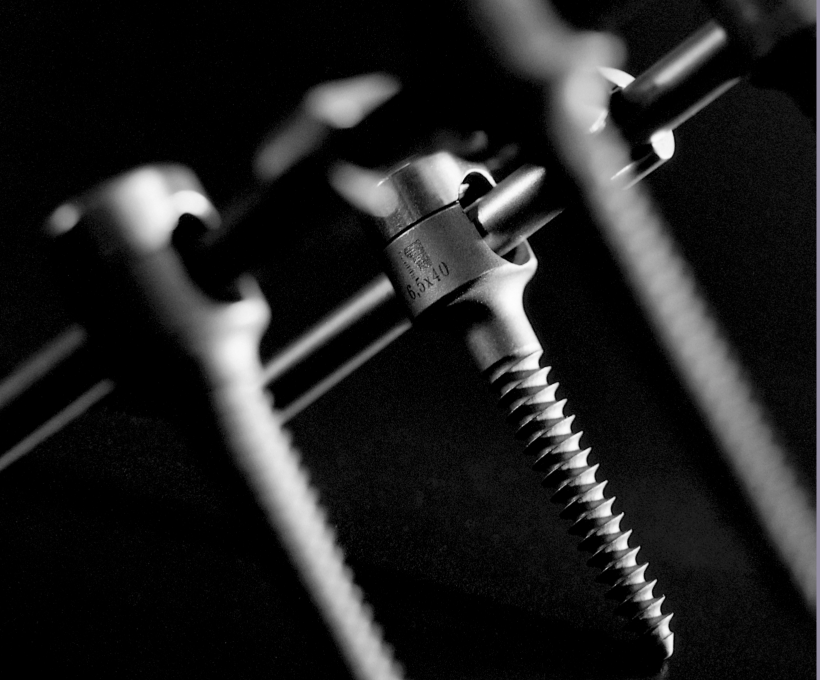
Meeting challenging conditions

Our sales organizations possess the perseverance, skill and focus to succeed under various kinds of challenging conditions. In 2000, for example, our European sales grew in local currencies in spite of less than optimal exchange rates and local pricing structures. This performance validates the new sales leadership for the region as a whole as well as in key individual country markets. A new European initiative to reach out to academic medicine was inaugurated in 2000 with the opening of the first of a series of Centers of Excellence throughout the region. Additionally, the first pan-European sales meeting in January 2001 demonstrated the growing cohesion of our European team.

We also work successfully in other markets with difficult pricing and reimbursement situations, including Korea, Japan, Canada and Latin America. Our favorable outcomes in these markets result from strategic leadership and the drive and skill of individual reps as well as from continually improving operating efficiencies and offering products tailored to the needs of regional markets. We invest for the long term, as in our sponsorship of the Orthopaedic Learning Centre in Hong Kong, which will help position us to maximize emerging opportunities in China.

Sales of services

Physiotherapy Associates, our physical therapy business unit, sells its services as skillfully as our product sales divisions. It is well-established within its chosen markets throughout the United States, and its individual center directors develop close relationships with physicians in their areas, who refer patients not only because of the proven efficacy of physical therapy, but because of trust in our practitioners.

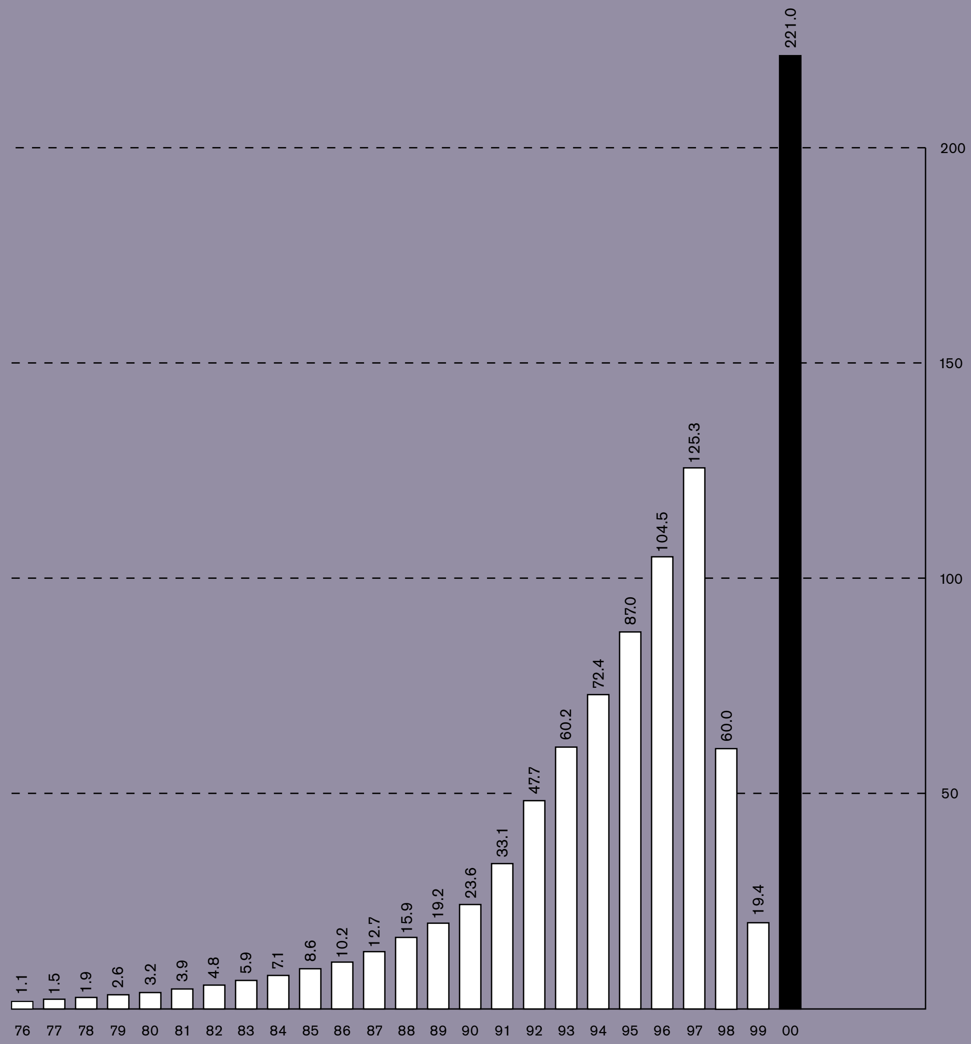


Stryker Spine provides forums for surgeons from around the world to exchange ideas about leading techniques in spine surgery. In 2000, these included annual symposia for surgeons and a program for surgical residents and fellows as well as continuing education through our Bordeaux training center. These educational events channel ideas into the development, improvement and use of our products, such as the new version of the Diapason ball-ring fixation system, improved by the incorporation of our highly regarded Reliance instrumentation.

{ DELIVER IT }

Stryker believes in delivering on all levels. We help surgeons and other health care professionals work more efficiently and effectively. Through this process, we contribute to improved quality of life for their patients. We offer outstanding career opportunities to our employees around the world. Ultimately, we have met the test of delivering exceptional, consistent financial results to our shareholders, evidenced by our long-term earnings growth record.

NET EARNINGS * ($ millions)
24-Year Compound Annual Growth Rate of 25%



*Before 1990 extraordinary gain; 1998 and 1999 include Howmedica acquisition-related costs and charges.

GAMMA LOCKING NAIL

The Gamma Locking Nail family of trauma devices demonstrates how Stryker builds on best-in-class products to achieve long-term clinical and sales results. Because Gamma nails have been widely used around the world since 1987, there are extensive clinical studies indicating that this product helps patients recover more quickly and completely than traditional hip fracture treatment. Stryker plans to release a titanium version in 2001.

A Long-Term Vision

Stryker's ability to deliver consistent financial results over time is directly related to our commitment to physicians, patients and employees.

In addition to providing exemplary service, we support physicians through consultation and continuing education. In 2000 alone, for example, Howmedica Osteonics sponsored scientific meetings that included training for nearly 2,700 clinicians.

Patients benefit from our product innovations over the long term. One case in point is the Exeter hip, which has contributed to favorable patient outcomes for 30 years. It is now used around the world, and it continues to be introduced in new countries, as it was this year in Argentina and Russia. Exeter consistently delivers solid sales results, growing in double digits every year since 1990.

Stryker presents excellent long-term career prospects to employees. After ensuring a proper fit during the recruitment process and investing in training, we emphasize organization building, with continual opportunity for improvement through responsibility, accountability and feedback.

Financial Review

Ten-Year Review
(dollars in millions, except per share amounts)

Summary of Operations	*2000*	*1999*	*1998*
Net sales	$2,289.4	$2,103.7	$1,103.2
Cost of sales:			
Before inventory step-up	815.2	791.5	464.3
Inventory step-up	–	198.2	7.8
Total cost of sales	815.2	989.7	472.1
Gross profit	1,474.2	1,114.0	631.1
Research, development and engineering expenses	122.2	105.2	61.0
Selling, general and administrative expenses	885.6	808.4	373.6
Purchased research and development	–	–	83.3
Acquisition-related, restructuring and special charges (credits)	(1.0)	18.9	19.0
Gain on patent judgment	–	–	–
	1,006.8	932.5	536.9
Other expense (income)	132.5	151.7	3.3
Earnings before income taxes	334.9	29.8	90.9
Income taxes	113.9	10.4	30.9
Net earnings	$221.0	$19.4	$60.0
Net earnings per share of common stock:[a]			
Basic	$1.13	$.10	$.31
Diluted	$1.10	$.10	$.31
Dividend per share of common stock[a]	$.08	$.065	$.06
Average number of shares outstanding - in millions:[a]			
Basic	195.1	193.8	192.6
Diluted	201.1	198.6	196.3

(a) Adjusted for the two-for-one stock splits effective June 13, 1991, June 10, 1996 and May 12, 2000.

Financial and Statistical Data	*2000*	*1999*	*1998*
Cash and marketable securities	54.0	83.5	138.6
Working capital	379.6	440.8	666.2
Current ratio	1.6	1.7	2.0
Property, plant and equipment - net	378.1	391.5	429.5
Capital expenditures	80.7	76.4	51.3
Depreciation and amortization	168.6	162.8	53.2
Total assets	2,430.8	2,580.5	2,875.4
Long-term debt, including current maturities	1,012.5	1,287.4	1,503.0
Stockholders' equity	854.9	671.5	672.6
Return on average equity	29.0%	2.9%	9.3%
Net cash provided by operating activities	331.8	284.0	154.5
Number of stockholders of record	2,904	2,929	3,061
Number of employees	12,084	10,925	10,974

1997	1996	1995	1994	1993	1992	1991
$980.1	$910.1	$871.9	$681.9	$557.3	$477.1	$364.8
397.7	392.4	369.4	300.4	256.7	221.7	172.4
–	–	–	–	–	–	–
397.7	392.4	369.4	300.4	256.7	221.7	172.4
582.4	517.7	502.5	381.5	300.6	255.4	192.4
56.9	56.9	43.8	39.6	36.2	32.3	23.7
334.3	326.6	301.4	221.4	172.4	149.4	117.1
–	7.5	–	–	–	–	–
–	34.3	–	–	–	–	–
–	(61.1)	–	–	–	–	–
391.2	364.2	345.2	261.0	208.6	181.7	140.8
(4.1)	(12.6)	3.4	(2.7)	(4.1)	(3.2)	(1.8)
195.3	166.1	153.9	123.2	96.1	76.9	53.4
70.0	61.6	66.9	50.8	35.9	29.2	20.3
$125.3	$104.5	$87.0	$72.4	$60.2	$47.7	$33.1
$.65	$.54	$.45	$.37	$.31	$.25	$.17
$.64	$.53	$.44	$.37	$.31	$.24	$.17
$.055	$.05	$.023	$.02	$.018	$.015	$.013
192.5	193.7	193.9	193.5	193.4	190.9	190.1
196.3	196.9	197.1	196.1	195.7	195.6	194.9

1997	1996	1995	1994	1993	1992	1991
351.1	367.6	264.6	202.0	152.6	91.8	80.0
433.7	501.8	448.8	361.3	214.0	168.2	140.3
2.4	3.0	3.6	3.0	2.6	2.7	2.6
163.9	172.3	182.6	180.7	67.7	59.6	36.1
35.2	26.7	36.3	29.2	20.2	31.6	16.6
49.5	34.7	28.7	20.9	16.2	11.4	11.8
985.1	993.5	854.9	768.0	454.2	340.3	270.3
78.1	93.9	100.0	100.6	32.2	2.6	1.9
612.8	530.4	454.3	358.3	288.4	232.3	179.9
21.9%	21.2%	21.4%	22.4%	23.1%	23.1%	20.2%
91.9	204.3	111.5	97.7	86.1	50.7	37.6
3,127	3,306	3,260	3,684	3,951	3,512	2,914
5,691	5,274	4,629	4,221	3,228	2,906	2,448

Results of Operations

The table below outlines the components of the consolidated statements of earnings as a percentage of net sales and the year-to-year percentage change in dollar amounts:

	Percentage of Net Sales			Percentage Change	
	2000	*1999*	*1998*	*2000/99*	*1999/98*
Net sales	100.0%	100.0%	100.0%	9%	91%
Cost of sales:					
Before inventory step-up	35.6	37.6	42.1	3	70
Inventory step-up	–	9.4	0.7	–	–
Total cost of sales	35.6	47.0	42.8	(18)	110
Gross profit	64.4	53.0	57.2	32	77
Research, development and engineering expenses	5.3	5.0	5.5	16	72
Selling, general and administrative expenses	38.7	38.4	33.9	10	116
Purchased research and development	–	–	7.6	–	–
Acquisition-related and restructuring charges (credits)	–	0.9	1.7	–	(1)
Other expense (income)	5.8	7.2	0.3	(13)	–
Earnings before income taxes	14.6	1.4	8.2	–	(67)
Income taxes	5.0	0.5	2.8	–	(66)
Net earnings	9.7%	0.9%	5.4%	–	(68)

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

	Net Sales *(in millions)*				Percentage Change		
	2000	*1999*	*1998*	*Pro Forma 1998*(a)	*2000/99*	*1999/98*	*1999/Pro Forma 98*
Domestic/international sales							
Domestic	$1,408.2	$1,228.4	$728.9	$1,098.6	15%	69%	12%
International	881.2	875.3	374.3	807.0	1	134	8
Total net sales	$2,289.4	$2,103.7	$1,103.2	$1,905.6	9	91	10
Product line sales							
Orthopaedic Implants	$1,313.0	$1,248.2	$409.6	$1,111.5	5	205	12
MedSurg Equipment	829.1	733.5	577.8	678.3	13	27	8
Physical Therapy Services	147.3	122.0	115.8	115.8	21	5	5
Total net sales	$2,289.4	$2,103.7	$1,103.2	$1,905.6	9	91	10

(a) The pro forma sales information includes the sales of Howmedica, which was acquired on December 4, 1998, for a comparable period but does not necessarily reflect the consolidated sales that would have occurred had Stryker and Howmedica operated as a combined entity during that period.

2000 Compared with 1999

Stryker Corporation's net sales increased 9% in 2000 to $2,289.4 million from $2,103.7 million in 1999. Net sales grew by 9% as a result of increased unit volume; 1% related to higher selling prices; and 1% as a result of acquired businesses. These increases were partially offset by a 2% decline due to changes in foreign currency exchange rates.

The Company's domestic sales increased 15% in 2000 compared with 1999. The domestic sales gain is a result of higher shipments of orthopaedic implants, powered surgical instruments, endoscopic equipment and hospital beds and stretchers, together with higher revenue from physical therapy services. International sales increased 1%

for the year as a result of higher shipments of Orthopaedic Implants and MedSurg Equipment. The impact of foreign currency comparisons on the dollar value of international sales was unfavorable by $43.0 million for the year. Sales of discontinued products in 1999 were $7.7 million. Excluding the impact of foreign currency and discontinued products, international sales increased 7% in 2000.

Worldwide sales of Orthopaedic Implants were $1,313.0 million for 2000, representing an increase of 5% as a result of higher shipments of reconstructive (hip, knee and shoulder), trauma and spinal implants. Excluding the impact of foreign currency, sales of Orthopaedic Implants increased 8% in 2000. Worldwide sales of MedSurg Equipment were $829.1 million for 2000, representing an increase of 13% based on higher shipments of powered surgical instruments, endoscopic systems, hospital beds and stretchers and Leibinger craniomaxillofacial implants and image-guided surgical systems. Excluding the impact of foreign currency and discontinued products, sales of MedSurg Equipment increased 14% in 2000. Physical Therapy Services revenues were $147.3 million for 2000, representing an increase of 21% as a result of new physical therapy centers and higher revenues from existing centers.

Cost of sales represented 35.6% of sales compared with 47.0% in 1999. The higher cost of sales percentage in 1999 resulted from $198.2 million of additional nonrecurring cost of sales for inventory sold in 1999 that was stepped-up to fair value in connection with the acquisition of Howmedica, compared with no inventory step-up included in 2000 cost of sales. Excluding the nonrecurring cost of sales charges for inventory step-up, cost of sales would have declined from 37.6% of sales in 1999 to 35.6% in 2000. The decline is primarily the result of the realization of cost savings from cost reduction plans implemented at former Howmedica manufacturing plants and of slightly higher selling prices in 2000.

Research, development and engineering expenses increased 16% in 2000 and represented 5.3% of sales in 2000 compared with 5.0% in 1999. The increase in research, development and engineering spending in 2000 resulted from continued Company-wide focus on new product development. New product introductions in 2000 included Crossfire Highly Crosslinked Polyethylene for Howmedica implants, the Scorpio TS Revision Knee System, Stryker Instruments' TPS U2 drill, the Steri-Shield T4 Personal Protection System, the Stryker Navigation System, the Antigrade/Retrograde intramedullary nail, the OPUS spinal system, resorbable craniomaxillofacial plates and screws and, in certain international markets, Simplex P bone cement with Tobramycin.

Selling, general and administrative expenses increased 10% in 2000 and represented 38.7% of sales compared with 38.4% in 1999. Selling, general and administrative expenses as a percentage of sales were comparable in both years after considering the inclusion of $7.1 million in 2000 and $0.6 million in 1999 of discount expense related to the accounts receivable securitization program established in November 1999.

The Company recognized nonrecurring credits of $1.0 million in continuing operations relating to various acquisition-related and restructuring events in the fourth quarter of 2000 and recognized nonrecurring acquisition-related charges of $18.9 million in 1999. The 2000 acquisition-related and restructuring credits include the reversal of prior year restructuring accruals totaling $7.0 million, offset by charges totaling $6.0 million. The $7.0 million in credits includes $1.2 million related to the reorganization of Stryker's distribution channels associated with the acquisition of Howmedica and $2.7 million to reverse reserves for a distributor reorganization that was charged to operations in 1996. The credits also include $2.7 million related to a reduction in the expected costs to complete headcount reductions in Japan and $0.4 million to reverse a portion of loss reserves established for discontinued ophthalmology inventories sold on a contingent basis. Both of these credits represent the reversal of charges originally taken in connection with the 1999 reorganization of the Company's Japanese distribution operation and the discontinuance of distribution of ophthalmology products in Japan. The $6.0 million in 2000 restructuring charges includes a $4.0 million charge to cover severance costs for 95 employees, primarily in Europe. Approximately 10% of the planned workforce reductions were completed in December 2000, with the remaining reductions expected to be completed in 2001. The 2000 restructuring charges also include $1.4 million for asset write-offs, primarily for goodwill and inventory, and lease commitments associated with certain operations, principally in Europe, that were closed in the fourth quarter of 2000. The 2000 restructuring charges also include $0.6 million to terminate two small European distributors.

In 1999, the Company recognized nonrecurring acquisition-related charges of $18.9 million, consisting of $14.2 million to reorganize Stryker's Japanese distribution operation and to discontinue the distribution of ophthalmology products in Japan and $4.7 million to complete the reorganization of Stryker's distribution channels to accommodate the Howmedica integration.

Interest expense declined to $96.6 million in 2000 from $122.6 million in 1999, primarily as a result of lower outstanding debt balances. The increase in intangibles amortization to $34.7 million in 2000 from $33.9 million in 1999 relates primarily to business acquisitions during 2000. Other income declined from $4.8 million in 1999 to other expense of $1.2 million in 2000 primarily as a result of foreign currency transaction losses. The effective tax rate for 2000 was 34.0% compared with a 34.9% effective tax rate in 1999. The decrease in the rate from 1999 to 2000 is attributable to the mix of operating results among the tax jurisdictions.

Net earnings were $221.0 million (basic and diluted net earnings per share of $1.13 and $1.10, respectively) compared with $19.4 million (basic and diluted net earnings per share of $.10) in 1999. Excluding nonrecurring items in both years, net earnings in 2000 increased 37% to $220.3 million from $160.5 million in 1999; basic net earnings per share increased 36% to $1.13 in 2000 from $.83 in 1999; and diluted net earnings per share increased 36% to $1.10 in 2000 from $.81 in 1999.

1999 Compared with 1998

Stryker Corporation's net sales increased 91% in 1999 to $2,103.7 million from $1,103.2 million in 1998. Net sales increased $854.5 million, or 77%, as a result of the Howmedica acquisition. Net sales also grew by 9% as a result of increased unit volume; 3% related to higher selling prices from the conversion of distributors to direct sales; 2% as a result of other acquired businesses; and 1% due to changes in foreign currency exchange rates. These increases were partially offset by a 1% decline in selling prices.

Net sales on a pro forma basis increased 10% in 1999 compared with 1998. Increased unit volume generated a 7% sales increase. Net sales also increased 2% related to the conversion of certain portions of the Company's distribution networks to direct sales and 1% from changes in foreign currency exchange rates.

The Company's domestic sales increased 69% (12% on a pro forma basis) in 1999 compared with 1998. The domestic sales gain was a result of the Howmedica acquisition; higher shipments of orthopaedic implants, powered surgical instruments and endoscopic equipment; and increased revenue from physical therapy services. U.S. sales of Howmedica products in 1999 were $413.9 million, representing an increase of 6% over sales for 1998. Excluding a $17.1 million sales credit in 1998 for inventory repurchased from distributors, pro forma domestic sales increased 10% for the year. International sales increased 134% (8% on a pro forma basis) for the year as a result of the Howmedica acquisition and higher shipments of Stryker products. International sales of Howmedica products were $488.5 million in 1999, representing an increase of 7% over sales for the prior year. Foreign currency comparisons were favorable in 1999, adding $13.1 million ($12.9 million on a pro forma basis), or 3% (2% on a pro forma basis), to the dollar value of international sales.

Worldwide sales of Orthopaedic Implants were $1,248.2 million for 1999, representing an increase of 205% (12% on a pro forma basis) as a result of the Howmedica acquisition and higher shipments of reconstructive, trauma and spinal implants. Excluding the $17.1 million sales credit in the prior year, pro forma sales of Orthopaedic Implants increased 11% for the year. Worldwide sales of MedSurg Equipment were $733.5 million in 1999, representing an increase of 27% (8% on a pro forma basis) based on higher shipments of powered surgical instruments and endoscopic systems along with the Leibinger craniomaxillofacial product line acquired with Howmedica. Revenues from Physical Therapy Services increased 5% during the year as a result of the start-up of rehabilitative clinics, the acquisition of certain clinics and same-store revenue growth of 2%.

Cost of sales represented 47.0% of sales compared with 42.8% in 1998. The higher cost of sales percentage in 1999 resulted from $198.2 million of additional nonrecurring cost of sales for inventory sold in 1999 that was stepped-up to fair value in connection with the acquisition of Howmedica, compared with $7.8 million of inventory step-up included in 1998 cost of sales. Excluding the nonrecurring cost of sales charges for inventory step-up, cost of sales would have declined to 37.6% of sales in 1999 compared with 42.1% in 1998. The decline is primarily the result of a higher mix of Orthopaedic Implant sales as a result of the acquisition of Howmedica.

Research, development and engineering expenses increased 72% in 1999 and represented 5.0% of sales in 1999 compared with 5.5% in 1998. The increase in research, development and engineering spending in 1999 resulted from the acquisition of Howmedica and from the 1998 purchase of the manufacturing rights and facilities for OP-1. New product introductions in 1999 included Crossfire Highly Crosslinked Polyethylene for hip implants, the Secur-Fit Plus Hip Restoration System, the Duracon Total Stabilizer revision knee system, the Xia Spinal System, Stryker Instruments' PainPump, 12K Shaver System, 888 3-Chip Digital Camera, the Big Wheel stretcher and the Zoom Drive.

Selling, general and administrative expenses increased 116% in 1999 and represented 38.4% of sales in 1999 compared with 33.9% in 1998. The increase in selling, general and administrative expenses was the result of the acquisition of Howmedica, and the increase as a percent of sales reflected the higher mix of Orthopaedic Implant sales, which cost more to sell than the Company's other products.

The Company recognized nonrecurring acquisition-related charges in continuing operations of $18.9 million in 1999 and $116.3 million in 1998. The 1999 charges included $14.2 million to reorganize Stryker's Japanese distribution operation in order to accommodate the integration with Howmedica and to discontinue the distribution of ophthalmology products in Japan. The $14.2 million charge included $11.6 million of severance-related costs and $2.6 million to cover costs associated with the discontinuance of the ophthalmology product line. The 1999 charges also included $4.7 million to complete the reorganization of Stryker's distribution channels to accommodate the Howmedica integration. The cost of the conversions was based on contractual terms. In 1998 the Company recognized a charge of $83.3 million to operations for purchased research and development, $78.4 million related to the Howmedica acquisition and $4.9 million related to the acquisition of the OP-1 manufacturing rights and facilities. The Company also recorded 1998 charges of $21.8 million to reorganize Stryker distribution channels in order to accommodate the integration with Howmedica and $11.2 million in expensed transaction costs associated with the acquisition of Howmedica and of the manufacturing rights and facilities for OP-1.

The completion dates of the two significant acquired in-process research projects, which were in development by Howmedica at the time of the acquisition, have generally progressed according to plan. These projects relate to the development of a new spinal technology to be used in the treatment of spinal disorders and the development of an improved polyethylene to be used in hip and knee implants. The spinal project development is expected to be completed in 2002 as planned, but the timing of estimated future revenues is expected to be delayed due to clinical trial and regulatory approval requirements. The timing of estimated future revenues associated with the polyethylene project was slightly delayed due to the leveraging of the technology acquired from Howmedica with technology previously existing in the Company. The integration of the two technologies was completed in the second half of 2000 with the introduction of Crossfire Highly Crosslinked Polyethylene for Howmedica implants.

Interest expense increased to $122.6 million in 1999 from $12.2 million in 1998 due to the borrowing of approximately $1,500.0 million to fund the Howmedica acquisition. The increase in intangibles amortization to $33.9 million in 1999 from $7.6 million in 1998 relates primarily to the Howmedica acquisition. Other income declined to $4.8 million in 1999 from $16.5 million in the prior year due to lower interest income. The effective tax rate for 1999 was 34.9% compared with a 34.0% effective tax rate in 1998. The increase in the rate from 1998 to 1999 was attributable to the mix of operating results among the tax jurisdictions.

Net earnings were $19.4 million (basic and diluted net earnings per share of $.10) compared with $60.0 million (basic and diluted net earnings per share of $.31) in 1998, a decrease of 68%. Excluding nonrecurring charges in both years, net earnings in 1999 increased 13% to $160.5 million from $141.9 million in 1998; basic net earnings per share increased 12% to $.83 in 1999 from $.74 in 1998; and diluted net earnings per share increased 13% to $.81 in 1999 from $.72 in 1998.

Liquidity and Capital Resources

The Company's working capital at December 31, 2000 decreased $61.2 million to $379.6 million from $440.8 million at December 31, 1999. The working capital decrease is primarily due to the use of cash and the sale of an additional $30.3 million of domestic accounts receivable under a securitization facility established in November 1999, along with cash earnings, to reduce total debt by $274.9 million. Accounts receivable days sales outstanding, excluding the effect of the securitization program, decreased seven days to 69 days at the end of 2000 from 76 days at December 31, 1999. The lower days sales outstanding at December 31, 2000 is the result of a decrease in the aging of certain U.S. accounts receivable. Days sales in inventory decreased to 166 days at December 31, 2000 from 174 days at December 31, 1999.

The Company generated cash of $331.8 million from operations in 2000 compared with $284.0 million in 1999. The generation of cash in 2000 is the result of strong cash earnings (net earnings plus noncash adjustments) plus $30.3 million in proceeds from the accounts receivable securitization program and an increase in accrued expenses. These increases were partially offset by increases in accounts receivable, inventories and deferred charges, payments of $37.4 million attributable to acquisition-related and restructuring charges and acquisition purchase liabilities, and a decrease in accounts payable. In 2000, the Company used cash of $80.7 million for capital expenditures, $24.5 million for business acquisitions and $12.7 million for the payment of dividends. The Company also borrowed an additional $209.9 million under the existing credit facilities to fund cash flow needs at various times during 2000 and made repayments of $463.3 million against the credit facilities in 2000. Total debt declined by $274.9 million during 2000.

In November 1999, the Company established a securitization facility under which certain domestic accounts receivable are sold on an ongoing basis to a special-purpose subsidiary which in turn may sell up to a $130.0 million undivided percentage ownership interest in such receivables to a third party. The accounts receivable securitization facility was established to reduce the Company's overall cost of borrowing. The accounts receivable securitization facility provided $30.3 million of proceeds during 2000, with the program-to-date proceeds totaling $127.3 million as of December 31, 2000. The proceeds were used to reduce the Company's long-term debt.

The Company had $54.0 million in cash and cash equivalents at December 31, 2000. The Company also had outstanding borrowings totaling $1,012.5 million at that date. Current maturities of long-term debt at December 31, 2000 are $136.0 million and will increase to $156.9 million in 2002 and $195.3 million in 2003. The Company believes its cash on hand as well as anticipated cash flows from operations will be sufficient to fund future operating and capital requirements, payment of a working capital adjustment to the purchase price of the Howmedica acquisition and required debt repayments. Should additional funds be required, the Company had $294.1 million of additional borrowing capacity available under existing credit facilities at December 31, 2000.

Other Matters

The Company finalized its plan to integrate Howmedica and Stryker in 1999. As the integration plan evolved and was implemented during 1999, the Company made certain adjustments to the purchase liabilities recorded in the preliminary purchase price allocation. These adjustments resulted in net increases of $13.1 million to goodwill recorded in connection with the acquisition. The additional purchase liabilities recorded in connection with the acquisition of Howmedica totaled $126.5 million. At December 31, 2000, there were $12.0 million in additional purchase liabilities remaining to be paid out. The Company anticipates that approximately one-half of these obligations will be paid in 2001. Certain obligations, such as those related to lease commitments for facility closures, will result in payments extending to as late as 2008.

The Company manufactures its products in the United States, France, Germany, Ireland, Switzerland, Canada and Puerto Rico and distributes its products throughout the world. As a result, the Company's financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. The Company's operating results are exposed to changes in exchange rates between the U.S. dollar and the Japanese yen and European currencies, in particular the euro and the British pound. When the U.S. dollar strengthens against foreign currencies, the dollar value of foreign currency sales declines and the relative cost of U.S.-sourced product increases, thereby decreasing gross margins. When the U.S. dollar weakens, the opposite situation occurs.

The Company enters into forward foreign exchange contracts to mitigate the impact of currency fluctuations on transactions denominated in foreign currencies, thereby limiting risk to the Company that would otherwise result from changes in exchange rates. These foreign currency exposures principally relate to intercompany payables arising from intercompany purchases of manufactured products. The periods of the forward foreign exchange contracts correspond to the periods of the exposed transactions, with realized gains and losses included in the measurement and recording of the foreign-currency-denominated transactions.

At December 31, 2000, the Company had outstanding forward foreign exchange contracts to purchase $82.7 million and sell $33.8 million of various currencies (principally U.S. dollars and euros) with maturities principally ranging from 30 to 90 days. At December 31, 1999, the Company also had outstanding forward foreign exchange contracts to purchase $31.1 million and sell $47.3 million of various currencies (principally U.S. dollars) with maturities ranging from 30 to 180 days.

The estimated fair value of foreign currency contracts represents the measurement of the contracts at month-end spot rates as adjusted for amortized forward points. At December 31, 2000 and 1999, the difference between fair values and contract amounts was not material. A hypothetical 10% change in exchange rates for these currencies would change the 2000 fair value by approximately $1.6 million and would have changed the 1999 fair value by approximately $7.0 million.

The Company's exposure to market risk for changes in interest rates relates to its borrowings. The Company manages its interest rate risk on its borrowings through interest rate swap agreements, which have fixed the base rate on a $600.0 million notional amount of the $1,012.5 million of variable borrowings outstanding at December 31, 2000. If market interest rates for similar borrowings average 1% more in 2001 than they did in 2000, the Company's interest expense, after considering the effects of its interest rate swaps, would increase, and earnings before income taxes would decrease by $3.9 million. By comparison, if market interest rates average 1% less in 2001 than they did during 2000, the Company's interest expense, after considering the effects of its interest rate swaps, would decrease, and earnings before income taxes would increase by $3.9 million. These amounts are determined by considering the impact of hypothetical interest rates on the Company's borrowing cost and interest rate swap agreements without any actions by management to mitigate its exposure to such changes.

Forward-Looking Statements

The information contained in this report includes forward-looking statements within the meaning of the federal securities laws that are subject to risks and uncertainties. Factors that could cause the Company's actual results and financial condition to differ from the Company's expectations include, but are not limited to: changes in economic conditions that adversely affect the level of demand for the Company's products, changes in foreign exchange markets, changes in financial markets and changes in the competitive environment. All forward-looking statements contained in this report are qualified in their entirety by this cautionary statement.

CONSOLIDATED BALANCE SHEETS Stryker Corporation and Subsidiaries

(in millions, except per share amounts)

	December 31 2000	December 31 1999
ASSETS		
Current Assets		
Cash and cash equivalents	$54.0	$80.0
Marketable debt securities	–	3.5
Accounts receivable, less allowance of $28.8 ($28.3 in 1999)	343.7	377.7
Inventories	392.1	386.1
Deferred income taxes	168.7	227.0
Prepaid expenses and other current assets	38.5	36.1
Total current assets	997.0	1,110.4
Property, Plant and Equipment		
Land, buildings and improvements	211.9	219.1
Machinery and equipment	444.0	394.0
	655.9	613.1
Less allowance for depreciation	277.8	221.6
	378.1	391.5
Other Assets		
Goodwill, less accumulated amortization of $40.3 ($26.4 in 1999)	470.6	516.9
Other intangibles, less accumulated amortization of $53.2 ($31.6 in 1999)	368.7	382.0
Deferred charges, less accumulated amortization of $154.1 ($112.8 in 1999)	99.3	92.6
Deferred income taxes	84.0	42.7
Other	33.1	44.4
	1,055.7	1,078.6
	$2,430.8	$2,580.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$94.1	$110.4
Accrued compensation	115.2	102.0
Acquisition-related reorganization reserves and liabilities	56.8	138.0
Income taxes	33.6	47.1
Accrued expenses and other liabilities	181.7	165.8
Current maturities of long-term debt	136.0	106.3
Total current liabilities	617.4	669.6
Long-Term Debt, Excluding Current Maturities	876.5	1,181.1
Other Liabilities	82.0	58.3
Stockholders' Equity		
Common stock, $.10 par value:		
Authorized—500.0 shares		
Outstanding—195.9 shares (194.4 in 1999)	19.6	19.4
Additional paid-in capital	64.3	27.1
Retained earnings	873.4	668.1
Accumulated other comprehensive loss	(102.4)	(43.1)
Total stockholders' equity	854.9	671.5
	$2,430.8	$2,580.5

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings Stryker Corporation and Subsidiaries

(in millions, except per share amounts)

	Years ended December 31		
	2000	*1999*	*1998*
Net sales	$2,289.4	$2,103.7	$1,103.2
Cost of sales	815.2	989.7	472.1
Gross profit	1,474.2	1,114.0	631.1
Research, development and engineering expenses	122.2	105.2	61.0
Selling, general and administrative expenses	885.6	808.4	373.6
Purchased research and development	–	–	83.3
Acquisition-related and restructuring charges (credits)	(1.0)	18.9	19.0
	1,006.8	932.5	536.9
Other expense (income):			
Interest expense	96.6	122.6	12.2
Intangibles amortization	34.7	33.9	7.6
Other	1.2	(4.8)	(16.5)
	132.5	151.7	3.3
Earnings before income taxes	334.9	29.8	90.9
Income taxes	113.9	10.4	30.9
Net earnings	$221.0	$19.4	$60.0
Net earnings per share of common stock:			
Basic	$1.13	$.10	$.31
Diluted	$1.10	$.10	$.31

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity Stryker Corporation and Subsidiaries
(in millions, except per share amounts)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Total
Balances at January 1, 1998	$9.6	–	$613.0	($9.8)	$612.8
Adjusted for May 12, 2000 stock split (see Note 7)	9.7	($9.7)	–	–	–
Balances at January 1, 1998 as restated	19.3	(9.7)	613.0	(9.8)	612.8
Net earnings for 1998	–	–	60.0	–	60.0
Unrealized gains on securities of $0.9 ($0.3 net of tax) net of reclassification adjustment for gains included in net earnings	–	–	–	0.4	0.4
Foreign currency translation adjustments	–	–	–	0.4	0.4
Comprehensive earnings for 1998	–	–	–	–	60.8
Issuance of 0.8 shares of common stock under stock option and benefit plans, including $1.2 income tax benefit	0.1	6.7	–	–	6.8
Common stock issued in business acquisitions	–	3.8	–	–	3.8
Cash dividend declared of $.06 per share of common stock	–	–	(11.6)	–	(11.6)
Balances at December 31, 1998	19.4	0.8	661.4	(9.0)	672.6
Net earnings for 1999	–	–	19.4	–	19.4
Unrealized losses on securities of $0.4, net of $0.1 income tax benefit	–	–	–	(0.3)	(0.3)
Foreign currency translation adjustments	–	–	–	(33.8)	(33.8)
Comprehensive loss for 1999	–	–	–	–	(14.7)
Issuance of 0.6 shares of common stock under stock option and benefit plans, including $3.8 income tax benefit	–	7.2	–	–	7.2
Common stock issued in business acquisitions	–	19.1	–	–	19.1
Cash dividend declared of $.065 per share of common stock	–	–	(12.7)	–	(12.7)
Balances at December 31, 1999	19.4	27.1	668.1	(43.1)	671.5
Net earnings for 2000	–	–	221.0	–	221.0
Unrealized losses on securities of $0.4 (net of $0.1 income tax benefit) net of reclassification adjustment for gains included in net earnings	–	–	–	(0.5)	(0.5)
Foreign currency translation adjustments	–	–	–	(58.8)	(58.8)
Comprehensive earnings for 2000	–	–	–	–	161.7
Issuance of 1.1 shares of common stock under stock option and benefit plans, including $13.8 income tax benefit	0.1	17.5	–	–	17.6
Common stock issued in business acquisitions	0.1	19.7	–	–	19.8
Cash dividend declared of $.08 per share of common stock	–	–	(15.7)	–	(15.7)
Balances at December 31, 2000	$19.6	$64.3	$873.4	($102.4)	$854.9

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows Stryker Corporation and Subsidiaries
(in millions)

	Years ended December 31		
	2000	*1999*	*1998*
Operating Activities			
Net earnings	$221.0	$19.4	$60.0
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	74.7	67.8	30.0
Amortization	93.9	95.0	23.2
Sales of inventory stepped-up to fair value at acquisition	–	198.2	7.8
Write-off of purchased research and development	–	–	83.3
Acquisition-related and restructuring charges (credits)	(1.0)	18.9	19.0
Payments of acquisition-related and restructuring charge liabilities	(7.3)	(23.2)	(7.7)
Provision for losses on accounts receivable	7.2	15.0	2.6
Deferred income taxes (credit)	28.7	(48.6)	(33.9)
Other	8.0	7.5	(2.1)
Changes in operating assets and liabilities, net of effects of business acquisitions:			
Proceeds from accounts receivable securitization	30.3	112.7	–
Accounts receivable	(24.6)	(81.6)	(10.1)
Inventories	(20.2)	14.7	(30.2)
Deferred charges	(68.2)	(62.0)	(18.8)
Accounts payable	(15.2)	(31.6)	15.8
Payments of acquisition purchase liabilities	(30.1)	(79.3)	(1.9)
Accrued expenses	49.3	45.0	21.1
Income taxes	(7.1)	(1.9)	(2.5)
Other	(7.6)	18.0	(1.1)
Net cash provided by operating activities	331.8	284.0	154.5
Investing Activities			
Business acquisitions, net of cash acquired	(24.5)	(14.6)	(1,694.7)
Proceeds from sales of property, plant and equipment	4.8	0.2	–
Purchases of property, plant and equipment	(80.7)	(76.4)	(51.3)
Purchases of marketable securities	–	(5.0)	(233.8)
Sales and maturities of marketable securities	7.1	16.4	410.0
Net cash used in investing activities	(93.3)	(79.4)	(1,569.8)
Financing Activities			
Proceeds from borrowings	209.9	81.9	1,553.9
Payments on borrowings	(463.3)	(304.3)	(170.6)
Dividends paid	(12.7)	(11.6)	(10.6)
Proceeds from exercise of stock options	14.2	7.2	6.8
Other	(6.8)	(3.8)	7.3
Net cash provided by (used in) financing activities	(258.7)	(230.6)	1,386.8
Effect of exchange rate changes on cash and cash equivalents	(5.8)	(15.3)	(4.2)
Decrease in cash and cash equivalents	(26.0)	(41.3)	(32.7)
Cash and cash equivalents at beginning of year	80.0	121.3	154.0
Cash and cash equivalents at end of year	$54.0	$80.0	$121.3

See accompanying notes to consolidated financial statements.

Note 1
Significant Accounting Policies

Business: Stryker Corporation develops, manufactures and markets specialty surgical and medical products that are sold primarily to hospitals throughout the world and provides outpatient physical therapy services in the United States.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after elimination of all significant intercompany accounts and transactions.

Revenue Recognition: Revenue is recognized on the sale of products and services when the related goods have been shipped or services have been rendered.

Shipping and Handling Costs: Costs incurred related to shipment and handling of products are included in cost of sales.

Use of Estimates: The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires Company management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

Cash Equivalents and Investments: Cash equivalents are highly liquid investments with a maturity of three months or less when purchased. Investments include marketable debt securities classified as current assets and marketable equity securities and other investments classified in other assets. Other investments consist of mutual funds that are acquired to offset changes in certain liabilities related to deferred compensation arrangements.

The Company's investments are stated at fair value based on quoted market prices. Interest, dividends and realized gains and losses on the sale of cash equivalents and the equity and debt securities are included in other expense (income). Adjustments to fair value of the equity and debt securities, which are classified as available-for-sale, are recorded as increases or decreases, net of income taxes, within accumulated other comprehensive gain (loss) in stockholders' equity. Adjustments to other investments, which are classified as trading, are recorded as offsets to the related changes in liabilities under deferred compensation arrangements.

Accounts Receivable Securitization: In November 1999, the Company established an accounts receivable securitization facility pursuant to which certain subsidiaries of the Company sell on an ongoing basis all of their domestic receivables to Stryker Funding Corporation, a wholly owned special-purpose subsidiary of the Company, which in turn may sell up to an aggregate of a $130.0 undivided percentage ownership interest in such receivables to a multiseller commercial paper conduit administered by a bank. Creditors of Stryker Funding Corporation have a claim to its assets before any equity becomes available to the Company.

The amounts of accounts receivable sold to Stryker Funding Corporation totaled $127.3 and $97.0 at December 31, 2000 and 1999, respectively, and are reflected in the balance sheet as reductions of accounts receivable. The amount of receivables sold is subject to change monthly, based on the level of defined eligible receivables less contractual reserves. The Company's retained interest in accounts receivable administered by Stryker Funding Corporation, which represents an overcollateralization of the undivided interest sold, totaled $55.6 and $94.0 at December 31, 2000 and 1999, respectively. Costs associated with the securitization facility, including the conduit's financing cost of issuing its commercial paper, were $7.1 in 2000 and $0.6 in 1999 and are included in selling, general and administrative expenses.

Inventories: Inventories are stated at the lower of cost or market. Cost for approximately 89% (90% in 1999) of inventories is determined using the lower of first-in, first-out (FIFO) cost or market. Cost for certain domestic inventories is determined using the last-in, first-out (LIFO) cost method. The FIFO cost for all inventories approximates replacement cost.

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

Goodwill and Other Intangible Assets: Goodwill and other intangible assets represent the excess of purchase price over fair value of tangible net assets of acquired businesses. Goodwill is amortized on a straight-line basis over 10 to 40 years (weighted average life of 32 years). Other intangible assets include developed technology, which is amortized on a straight-line basis over 20 years, and customer base (which reflects expected continued customer patronage), trademarks, trade names, patents and assembled work force, which are amortized on a straight-line basis over 5 to 35 years (weighted average life of 18 years for other intangible assets).

The carrying amounts of goodwill and other intangible assets are reviewed if facts and circumstances suggest they may be impaired. If the review indicates that the carrying amount of any intangible asset will not be recoverable, as determined using an undiscounted cash flow analysis, the carrying amount of the goodwill or other intangible asset is reduced by the estimated shortfall of cash flows to fair value.

Deferred Charges: Deferred charges represent the net book value of loaner instruments for surgical implants provided to customers by the Company. These instruments are amortized on a straight-line basis over periods ranging from one to three years. Amortization expenses for instruments are included in selling, general and administrative expenses.

Deferred Loan Costs: Deferred loan costs associated with the Company's Senior Secured Credit Facilities are being amortized over the terms of the related debt using the effective-interest method. Deferred loan costs are classified in other assets and had a net book value of $13.1 and $21.3 at December 31, 2000 and 1999, respectively. Amortization expenses for deferred loan costs are included in interest expense and were $8.2 in 2000, $7.4 in 1999 and $0.4 in 1998.

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

Derivative Financial Instruments: The Company uses derivative financial instruments to manage the economic impact of fluctuations in interest rates and foreign currency exchange rates. The Company enters into interest rate swaps and foreign currency forward contracts to manage these economic risks.

Interest rate differentials to be paid or received as a result of interest rate swaps are accrued and recognized as an adjustment of interest expense related to the designated debt. Foreign currency forward contracts, which are principally used to mitigate the effects of changes in foreign currency exchange rates on intercompany financial activity, are recorded in the balance sheet with realized gains and losses included in the measurement and recording of the transactions.

Stock Options: The Company follows Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its employee stock options. Under APB 25, no compensation expense is recognized because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant.

Comprehensive Gain (Loss): The components of accumulated other comprehensive gain (loss) are as follows:

	Unrealized Losses on Securities	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Loss
Balances at December 31, 1998	–	($9.0)	($9.0)
Other comprehensive loss for 1999	($0.3)	(33.8)	(34.1)
Balances at December 31, 1999	(0.3)	(42.8)	(43.1)
Other comprehensive loss for 2000	(0.5)	(58.8)	(59.3)
Balances at December 31, 2000	($0.8)	($101.6)	($102.4)

New Accounting Standards Not Yet Adopted: In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." Statements No. 137 and No. 138, issued in June 1999 and June 2000, respectively, amended the original Statement. The Statements require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in accumulated other comprehensive gain (loss) until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value must be immediately recognized in earnings. The Company is required to adopt Statement No. 133, as amended, beginning in the first quarter of 2001. Upon adoption on January 1, 2001, the Company will recognize a gain from the cumulative effect of an accounting change of $3.5 in accumulated other comprehensive gain (loss).

Note 2
Financial Instruments And Risk Management

The following is a summary of the Company's investments:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
At December 31, 2000:				
Equity securities	$2.6	–	($1.3)	$1.3
Other investments	7.4	–	–	7.4
Total	$10.0	–	($1.3)	$8.7
At December 31, 1999:				
Debt securities	$3.5	–	–	$3.5
Equity securities	4.5	$0.8	($1.4)	3.9
Other investments	6.0	–	–	6.0
Total	$14.0	$0.8	($1.4)	$13.4

Gross realized gains on sales of the Company's investments totaled $7.2, $2.5 and $2.6 in 2000, 1999 and 1998, respectively, and gross realized losses totaled $3.9, $0.1 and $1.1 in 2000, 1999 and 1998, respectively.

Interest income, which is included in other income, totaled $4.1 in 2000, $4.2 in 1999 and $16.5 in 1998.

The Company enters into forward foreign exchange contracts to mitigate the impact of currency fluctuations on transactions denominated in foreign currencies, thereby limiting risk to the Company that would otherwise result from changes in exchange rates. These foreign currency exposures principally relate to intercompany payables arising from intercompany purchases of manufactured products. The periods of the forward foreign exchange contracts correspond to the periods of the exposed transactions, with realized gains and losses included in the measurement and recording of the foreign-currency-denominated transactions.

At December 31, 2000, the Company had outstanding forward foreign exchange contracts to purchase $82.7 and sell $33.8 of various currencies (principally U.S. dollars and euros) with maturities principally ranging from 30 to 90 days. At December 31, 1999, the Company also had outstanding forward foreign exchange contracts to purchase $31.1 and sell $47.3 of various currencies (principally U.S. dollars) with maturities ranging from 30 to 180 days. The estimated fair value of foreign currency contracts represents the measurement of the contracts at month-end spot rates as adjusted for amortized forward points. At December 31, 2000 and 1999, the difference between fair values and contract amounts was not material.

The Company manages its interest rate risk on its borrowings through the purchase of interest rate swap agreements, which have fixed the base rate on a $600.0 notional amount of the $1,012.5 of variable borrowings outstanding at December 31, 2000. Under the agreements, the Company has fixed the base rate on a $600.0 notional amount of the U.S.-dollar-denominated borrowings at an average rate of 5.4%. The interest rate swaps mature over various terms ranging from September 2001 through December 2003. The fair value of the Company's interest rate swap agreements represents the estimated receipts or payments that would be made to terminate the agreements. The Company would have received $3.5 and $24.1 at December 31, 2000 and December 31, 1999, respectively, to terminate the agreements.

Note 3
Inventories

Inventories are summarized as follows:

	December 31	
	2000	*1999*
Finished goods	$290.6	$276.7
Work-in-process	49.7	58.9
Raw material	58.8	57.8
FIFO cost	399.1	393.4
Less LIFO reserve	7.0	7.3
	$392.1	$386.1

Note 4
Business Acquisitions

In October 2000, the Company acquired the intellectual property rights and certain other assets associated with the sale of its Stryker PainPump products in the United States, Canada and Mexico from McKinley Medical LLP for cash of $8.4. The Stryker PainPump is a pain management device used to aid postsurgical patient recovery. The acquisition was accounted for using the purchase method of accounting. Substantially all of the purchase price was allocated to patents, which are being amortized over nine years.

In August 2000, the Company completed the acquisition of Image Guided Technologies, Inc. (IGT) by merger for 0.3 shares of Stryker common stock with a value of $12.0. IGT manufactures three-dimensional optical measurement devices ("optical localizers") for anatomical image-display workstations used by physicians to perform image-guided surgery. The acquisition was accounted for using the purchase method of accounting. Intangible assets acquired, principally patents and goodwill, are being amortized over periods ranging from 10 to 15 years.

In June 2000, the Company acquired all of the outstanding common stock of Colorado Biomedical, Inc. by merger for 0.2 shares of Stryker common stock with a value of $7.8. Colorado Biomedical, Inc. manufactures the Colorado Micro Needle, which is used for precision electrosurgery in various surgical specialties. The acquisition was accounted for using the purchase method of accounting. Intangible assets acquired, principally patents and goodwill, are being amortized over periods ranging from 7 to 15 years.

In February 2000, the Company purchased the Neptune System product line, which is a medical waste management system used in hospital operating rooms. The acquisition was accounted for using the purchase method of accounting at a total cost of $10.0, of which $7.0 represents royalties to be paid over the following three years. Intangible assets acquired, principally patents, are being amortized over 15 years. The Company has the right to terminate the purchase agreement within a three-year period if the sales of the Neptune System do not meet certain levels. If the agreement is terminated, the Company will relinquish all of its rights to the patents. If the Company does not exercise its right to terminate the agreement at the end of three years, the Company will be required to pay additional royalties totaling a minimum amount of $30.4 over the following four years.

In February 2000, the Company acquired the remaining 50% interest in the patent rights for its Diapason spinal product line for cash of FFr 50.2 ($7.6). The acquired patents are being amortized over approximately nine years.

In November 1999, the Company acquired all of the outstanding common stock of InfoMedix Communications Corporation (now known as Stryker Communications Corporation), which develops, builds and sells video communications hardware and software that enables telecommunication of surgical images for medical education for cash of $1.2 and 0.2 shares of Stryker common stock ($9.4 value). The acquisition was accounted for using the purchase method of accounting. Substantially all of the purchase price for InfoMedix was allocated to goodwill, which is being amortized over 20 years.

In April 1999, the Company acquired the portion of the Japanese distributor of Leibinger products associated with the distribution of such products for cash of approximately $2.7. The entire purchase price was allocated to tangible assets acquired.

On December 4, 1998, the Company acquired Howmedica, the orthopaedic division of Pfizer Inc., for $1,650.0 in cash. Howmedica develops, manufactures and markets a wide range of specialty medical products utilized in the treatment of musculoskeletal disorders. Howmedica products include hip and knee implants for primary and revision surgery, bone cement, trauma systems used in bone repair, craniomaxillofacial fixation devices and specialty surgical equipment used in neurosurgery. The acquisition was funded with cash and cash equivalents and approximately $1,500.0 borrowed under $1,650.0 of credit facilities established in December 1998 (see Note 6).

The acquisition of Howmedica was accounted for using the purchase method of accounting. The results of operations for Howmedica are included in the Company's consolidated financial statements beginning December 5, 1998. The purchase price of $1,650.0 in cash plus an estimate for a contractually required adjustment, based on the increase in Howmedica's working capital since December 31, 1997, and liabilities assumed, was preliminarily allocated in December 1998 to the assets acquired, based on their estimated fair values at the date of acquisition. The purchase price allocation was finalized in the fourth quarter of 1999, except that the amount of the final working capital adjustment remained in dispute. A significant portion of the disputed working capital adjustment amount was determined in the fourth quarter of 2000, with $17.5 in potential additional purchase price remaining in dispute at December 31, 2000.

Based on the final purchase price allocation (as adjusted for determined working capital adjustment amounts), goodwill of $448.6 has been recorded by the Company in connection with the acquisition. Goodwill represents the excess of the purchase price and purchase liabilities over the fair value of net identifiable tangible and intangible assets acquired. Approximately $488.3 of the purchase price was allocated to identifiable intangible assets, including purchased research and development of $78.4, developed technology of $227.0, customer base of $141.8 and trademarks and assembled work force of $41.1. The purchased research and development was charged to operations during the fourth quarter of 1998.

The purchased research and development of $78.4 for the Howmedica acquisition was determined based on an independent valuation of Howmedica's research and development projects using information and assumptions provided by management. Among the in-process projects included in the valuation, two were considered significant. These projects relate to the development of a new spinal technology to be used in the treatment of spinal disorders and the development of an improved polyethylene to be used in hip and knee implants. The amount of purchased in-process research and development allocated to the spinal project was $50.7, and the amount allocated to the polyethylene project was $26.0. The estimated future revenues associated with the spinal project were deemed to be approximately 80% attributable to in-process research and development, based on technological progression towards completion. For the polyethylene project, future revenues were deemed to be approximately 75% attributable to in-process research and development, based on the same criterion. The spinal project development is expected to be completed in 2002 as planned, but the timing of estimated future revenues is expected to be delayed due to clinical trial and regulatory approval requirements. The timing of estimated future revenues associated with the polyethylene project was slightly delayed due to the leveraging of this technology with technology previously existing in the Company, the combination of which was completed in 2000 with the introduction of Crossfire Highly Crosslinked Polyethylene for Howmedica implants. All of the purchased research and development projects were valued using an income approach that employs the discounted cash flow method.

In connection with the final purchase price allocation, Howmedica inventories were stepped-up $207.5 to fair value. This step-up was charged off as additional nonrecurring cost of sales as the acquired inventory was sold. Cost of sales for 1999 and for the fourth quarter of 1998 were increased as a result of the step-up. These increases in cost of sales reduced pretax earnings for 1999 by $198.2 ($128.8 net of tax) and 1998 fourth quarter pretax earnings by $7.8 ($5.2 net of tax).

Immediately after the acquisition was consummated, management of the Company began to implement an integration plan to combine Stryker and Howmedica. In conjunction with the integration plan, the Company recorded additional purchase liabilities of $126.5 ($80.5 net of related tax benefits) that were included in the final acquisition cost allocation. The Company also incurred $37.7 in costs and charges related to the acquisition that were charged to operations during 1999 and 1998 (see Note 5).

During 1999, the Company finalized its purchase price allocation to reflect additional purchase liabilities relating to the Company's integration activities as the restructuring was implemented, as shown in the table below. The related increases and decreases in these additional purchase liabilities resulted in corresponding changes to goodwill associated with the acquisition of Howmedica.

The additional purchase liabilities include severance and related costs for Howmedica employees, the cost to convert Howmedica's distribution network to direct sales and the cost associated with Howmedica facility closures and contractual obligations. The severance and related costs are provided for workforce reductions covering approximately 1,250 Howmedica employees in the areas of general management, marketing, research and development, general administration and product manufacturing. The cost of the distributor conversions is based on negotiated contracts. The Howmedica facility closures include two facilities in Europe — a leased facility used for centralized administrative functions such as finance, accounting and information systems and a leased facility used for centralized warehousing and distribution in Europe and certain other regions. The facility closures also include certain facilities in the United States — a leased facility supporting administration, warehousing and distribution for Howmedica's craniomaxillofacial business in the United States and leased facilities supporting administration, marketing, research and development and a portion of the U.S. warehousing and distribution for Howmedica's orthopaedic implant business. The contractual obligations represent noncancelable commitments for third-party research and development related to projects that were not continued after the acquisition and purchase commitments for inventory related to discontinued Howmedica products.

Substantially all of the activities for which additional purchase liabilities are recorded were completed during 1999 and 2000. These activities include the conversion of Howmedica's distribution network to direct sales and the planned workforce reductions of Howmedica employees. Payments of distributor conversion obligations and severance and related costs are expected to be completed by the third quarter of 2001. The two Howmedica facilities in Europe and Howmedica's U.S. craniomaxillofacial facility were closed during 1999. The remaining leased facilities in the United States were closed during 2000, with the exception of one facility that is expected to be closed during 2001. Facility closure and contractual obligations include lease obligation payments that extend to 2008.

The following table provides a rollforward from December 4, 1998 (the date of the Howmedica acquisition) to December 31, 2000 of the additional purchase liabilities recorded in connection with the acquisition of Howmedica:

	Severance & Related Costs	Distributor Conversions	Facility Closures & Contractual Obligations
Balances established at December 4, 1998	$70.4	$27.7	$13.1
Payments	(1.6)	–	(0.3)
Balances at December 31, 1998	68.8	27.7	12.8
Additions (reductions)	13.8	(1.4)	2.9
Payments	(57.1)	(18.5)	(3.7)
Foreign currency translation effects	(2.4)	–	1.3
Balances at December 31, 1999	23.1	7.8	13.3
Reductions	(0.1)	–	(0.4)
Payments	(20.1)	(4.2)	(5.8)
Foreign currency translation effects	(1.2)	–	(0.4)
Balances at December 31, 2000	$1.7	$3.6	$6.7

The following unaudited pro forma financial information presents the combined results of operations of Stryker and Howmedica for 1998 as if the acquisition had occurred as of January 1, 1998, after giving effect to certain adjustments, including amortization of goodwill and intangible assets, increased interest expense on debt related to the acquisition, reduced interest income from cash utilized to complete the acquisition and the related tax effects. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had Stryker and Howmedica operated as a combined entity during 1998.

	Year ended December 31, 1998 (Unaudited)
Net sales	$1,905.6
Net earnings	107.2
Net earnings per share:	
Basic	$.56
Diluted	$.55

The pro forma financial information presented above does not include nonrecurring charges for purchased research and development, the sale of inventory stepped-up to fair value at the date of acquisition and integration activities. These items are included in the actual results of operations for 1998. The pro forma financial information includes pretax costs of approximately $31.7, representing an allocation of certain Pfizer corporate and division overhead costs to Howmedica.

In November 1998, the Company purchased the manufacturing rights, facilities and product on-hand for its OP-1 bone growth device from Creative BioMolecules, Inc., for approximately $19.3 in cash. In addition, the purchase agreement provided for increases in royalty payments associated with potential future OP-1 sales. The acquisition was accounted for using the purchase method. In connection with the acquisition, $4.9 of the purchase price paid for tangible research and development assets that have no alternative future use was allocated to purchased research and development and charged to operations during the fourth quarter of 1998.

During 1998, the Company's Osteonics Corp. subsidiary purchased four of its independent distributors at a cost of approximately $19.7. The entire purchase price was allocated to tangible assets acquired.

During 1998, the Company acquired additional shares of outstanding common stock of Matsumoto Medical Instruments, Inc., its Japanese distributor, thereby increasing its direct ownership to 83% at December 31, 1998. The additional shares were acquired for cash of $3.3 and 0.1 shares of Stryker common stock ($3.8 value). The acquisition of additional shares was accounted for using the purchase method. In January 1999, the Company acquired all of the remaining outstanding common stock of Matsumoto, increasing its direct ownership to 100%. The acquisition of these additional shares was completed for cash of $1.0 and 0.2 shares of Stryker common stock ($9.7 value).

The Company's Physiotherapy Associates, Inc. subsidiary has purchased a number of physical therapy clinic operations. The aggregate purchase price of these clinics in 2000, 1999 and 1998 was approximately $5.0, $2.2 and $2.6, respectively. Intangible assets acquired, principally employment contracts and goodwill, are being amortized over periods ranging from 1 to 15 years.

The use of shares of Stryker common stock in connection with certain of the acquisitions discussed above represents a noncash investing activity that is not reflected in the Consolidated Statements of Cash Flows. For all of the above acquisitions other than that of Howmedica, pro forma consolidated results would not differ significantly from reported results.

Note 5
Acquisition-Related and Restructuring Charges

In 2000, 1999 and 1998 the Company recorded acquisition-related and restructuring pretax charges (credits) consisting of the following items:

	2000	1999	1998
Acquisition-related charges (credits):			
Reorganization of distribution channels	($1.2)	$4.7	$21.8
Expensed transaction costs	–	–	11.2
	(1.2)	4.7	33.0
Less margin impact related to sales credits	–	–	14.0
Total acquisition-related charges (credits)	(1.2)	4.7	19.0
Restructuring charges (credits):			
Reorganization of distribution channels	(2.1)	–	–
Severance and related costs	1.3	11.6	–
Discontinuance of product line	(0.4)	2.6	–
Other	1.4	–	–
Total restructuring charges	0.2	14.2	–
Total acquisition-related and restructuring charges (credits)	($1.0)	$18.9	$19.0

The acquisition-related charges include $25.3 (credit of $1.2 in the fourth quarter of 2000 and charges of $4.7 in 1999 and $21.8 in 1998) for the reorganization of Stryker's distribution channels to accommodate the integration of the Howmedica sales force. The reorganization of Stryker's distribution channels encompasses the conversion of all remaining Osteonics distributors in the United States and certain distributors in Europe and the Pacific to direct sales in the form of branches or agents. These conversions provide the Company greater control over its distribution channels and facilitate the integration with the Howmedica organization. The Company believes that this action improves its ability to manage the sales and marketing of competing Stryker- and Howmedica-branded products within individual markets. The cost of the conversions is based on contractual terms.

The $21.8 acquisition-related charge in 1998 included $14.0 related to the buyback of inventory from U.S. distributors being converted to direct sales. The inventory was repurchased at its original selling price of $17.1 and was returned to inventory at its manufactured cost of $3.1, resulting in the reversal of gross profit on the original sale totaling $14.0. The 1998 expensed transaction costs represent costs associated with the acquisitions of Howmedica and of the manufacturing rights, facilities and product on-hand for the Company's OP-1 bone growth device (see Note 4).

The 2000 restructuring charges of $0.2 relate to various restructuring events in the fourth quarter of 2000. The credit of $2.1 related to reorganization of distribution channels reflects a charge of $0.6 to terminate two small European distributors, offset by a credit of $2.7 to reverse reserves for a distributor reorganization that was charged to operations in 1996. The delay in the use of the 1996 reserves occurred because the distributor is located in a country where Howmedica had a direct sales operation. The purchase of the Howmedica assets in this country was delayed because of the lengthy regulatory approval process there and was completed in 2000. After evaluating its business in this country, the Company decided not to terminate the distributor and reversed the previously recorded reserve.

Severance and related costs of $1.3 reflect charges of $4.0 offset by a credit of $2.7. The $4.0 charge covers severance costs for 95 employees, primarily in Europe. Approximately 10% of the planned workforce reductions were completed in December 2000, with the remaining reductions expected to be completed in 2001. The $2.7 credit relates to a reduction in the expected cost to complete the headcount reductions associated with the 1999 reorganization of the Company's Japanese distribution operations discussed below.

The $0.4 credit related to discontinuance of product line represents a reversal of a portion of the loss reserves established for discontinued ophthalmology inventories sold on a contingent basis in 1999 as described below. The other charges of $1.4 represent asset write-offs, primarily for goodwill and inventory, and lease commitments associated with certain operations, principally in Europe, that were closed in the fourth quarter of 2000.

The 1999 restructuring charges of $14.2 relate to the reorganization of Stryker's Japanese distribution operation to accommodate the integration with Howmedica and to discontinue the distribution of ophthalmology products in Japan. The charges include $11.6 to cover severance-related costs for approximately 110 employees and $2.6 for costs associated with the discontinuance of the ophthalmology product line. Planned workforce reductions covering approximately 80 employees have been completed. A portion of this reserve has been reversed in 2000, and the remaining headcount reductions are expected to be completed in 2001. The $2.6 in costs for the discontinuance of the ophthalmology product line was provided to cover obsolescence of remaining ophthalmology inventories, including loss reserves on certain remaining inventory sold on a contingent basis to a Japanese distribution company in 1999. The Company exited the ophthalmology business at the end of 1999. Net sales of ophthalmology products were $7.7 for 1999 and $11.8 for 1998.

The following table provides a rollforward of remaining liabilities associated with acquisition-related, restructuring and special pretax charges recorded by the Company in 2000, 1999, 1998 and 1996:

	Distributor Conversions	Severance & Related Costs	Discontinuance of Product Line	Other
Balance at January 1, 1998	$13.9	–	–	–
Additions recognized as charges in the 1998 Consolidated Statement of Earnings	7.8	–	–	–
Payments	(3.9)	–	–	–
Balance at December 31, 1998	17.8	–	–	–
Additions recognized as charges in the 1999 Consolidated Statement of Earnings	4.7	$11.6	$2.6	–
Payments	(9.1)	(8.5)	–	–
Inventory write-offs	–	–	(1.9)	–
Foreign currency translation effects	–	1.2	0.3	–
Balances at December 31, 1999	13.4	4.3	1.0	–
Additions (reductions) recognized as charges (credits) in the 2000 Consolidated Statement of Earnings	(3.3)	1.3	(0.4)	$1.4
Payments	(6.8)	(0.5)	–	–
Asset write-offs	–	–	–	(1.0)
Foreign currency translation effects	0.1	(0.4)	(0.2)	0.1
Balances at December 31, 2000	$3.4	$4.7	$0.4	$0.5

Note 6
Borrowings and Other Financing Arrangements

Long-term debt is as follows:

	December 31	
	2000	*1999*
Term loans	$767.3	$1,013.4
Multi-currency loan	225.0	247.4
Other	20.2	26.6
	1,012.5	1,287.4
Less current maturities	136.0	106.3
	$876.5	$1,181.1

In December 1998, the Company entered into $1,650.0 of Senior Secured Credit Facilities in conjunction with the acquisition of Howmedica (see Note 4). The facilities provide for $1,150.0 in term loans, a six-year $250.0 U.S. revolving credit facility and a six-year $250.0 reducing multicurrency facility.

The term loans consist of three tranches. Tranche A provides for a six-year $575.0 term loan, Tranche B for a seven-year $290.0 term loan and Tranche C for an eight-year $285.0 term loan. The term loans bear interest at a base rate, as defined, plus an applicable margin ranging from 1.25% to 3.00%, depending on the leverage ratio of the Company. The six-year $250.0 U.S. revolving credit facility bears interest at a base rate, as defined, plus an applicable margin ranging from 1.25% to 2.25%, depending on the leverage ratio of the Company. The six-year, $250.0 reducing multicurrency facility provides borrowings in yen, euro, U.S. dollars and other negotiated currencies. Multicurrency borrowings bear interest at a base rate, as defined, plus an applicable margin ranging from 0.875% to 1.75%, depending on the leverage ratio of the Company. At December 31, 2000, the Company had borrowed yen 11,874.5 and euro 129.8. The yen borrowing acts as a hedge of the Company's net investment in Japan. As a result, adjustments made to the loan balance to reflect applicable currency exchange rates at December 31 are included within accumulated other comprehensive gain (loss) in stockholders' equity. In addition, the revolving credit facility and the multicurrency facility each require a commitment fee that ranges from 0.375% to 0.50% on the unused portion of the facility, depending on the leverage ratio of the Company. At December 31, 2000, the weighted average interest rate for all borrowings under the Senior Secured Credit Facilities was 7.76%.

The Company has fixed the base rate on a $600.0 notional amount of the U.S.-dollar-denominated borrowings at an average rate of 5.4% using interest rate swaps (see Note 2).

Borrowings under the credit facilities are guaranteed by certain of the Company's subsidiaries and are fully secured by a substantial portion of the assets of the Company and such subsidiaries. The credit agreement requires the Company to comply with certain financial and other covenants and places certain limitations on the amount of increases in dividend payments.

In November 2000, the Company entered into a financing arrangement which provides for the sale of future foreign currency revenues. As of December 31, 2000, the Company had committed to borrowings during 2001 in the cumulative principal amount of approximately $44.3. No borrowings were outstanding under this arrangement at December 31, 2000.

Maturities of debt for the four years succeeding 2001 are: 2002 - $156.9; 2003 - $195.3; 2004 - $233.6; and 2005 - $246.2.

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

Interest paid on debt was $94.3 in 2000, $126.1 in 1999 and $12.2 in 1998 and approximates interest expense.

Note 7
Capital Stock

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

	Shares	Weighted Average Exercise Price
Options outstanding at January 1, 1998	7.1	$8.88
Granted	3.8	19.30
Canceled	(2.4)	19.97
Exercised	(0.8)	4.26
Options outstanding at December 31, 1998	7.7	11.19
Granted	2.9	24.28
Canceled	(0.3)	19.90
Exercised	(0.6)	6.03
Options outstanding at December 31, 1999	9.7	15.18
Granted	2.8	32.45
Canceled	(0.2)	23.41
Exercised	(1.1)	7.42
Options outstanding at December 31, 2000	11.2	$20.19
Price range $5.59 - $10.00	1.5	$6.24
Price range $10.01 - $20.00	4.3	14.47
Price range $20.01 - $30.00	2.6	24.25
Price range $30.01 - $45.19	2.8	32.46
Options outstanding at December 31, 2000	11.2	$20.19

Shares reserved for future grants were 13.0 and 15.6 at December 31, 2000, and 1999, respectively.

Exercise prices for options outstanding as of December 31, 2000, ranged from $5.59 to $45.19. A summary of shares exercisable follows:

	Shares	Weighted Average Exercise Price
Price range $5.59 - $10.00	1.5	$6.24
Price range $10.01 - $20.00	2.4	13.78
Price range $20.01 - $30.00	0.5	24.22
Shares exercisable at December 31, 2000	4.4	$12.48

The Company follows APB Opinion No. 25 in accounting for its stock option plans. Accordingly, no compensation cost has been recognized in the Consolidated Statements of Earnings for options issued under Company stock option plans. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FASB Statement No. 123, "Accounting for Stock-Based Compensation," the Company's net earnings and net earnings per share would have been as follows:

	2000	1999	1998
Net earnings			
As reported	$221.0	$19.4	$60.0
Pro forma	211.1	13.7	57.5
Basic net earnings per share			
As reported	$1.13	$.10	$.31
Pro forma	$1.08	$.07	$.30
Diluted net earnings per share			
As reported	$1.10	$.10	$.31
Pro forma	$1.05	$.07	$.29

The weighted average per share fair value of options granted during 2000, 1999 and 1998, estimated on the date of grant using the Black-Scholes option pricing model, was $14.82, $11.68 and $8.22, respectively. The fair value of options granted is estimated on the date of grant using the following assumptions:

	2000	1999	1998
Risk-free interest rate	5.17%	6.46%	4.75%
Expected dividend yield	0.26%	0.29%	0.30%
Expected stock price volatility	37.0%	38.0%	37.6%
Expected option life	6.5 years	6.4 years	6.4 years

On April 19, 2000, the Company's stockholders approved an amendment to the Company's Restated Articles of Incorporation to increase its authorized shares of common stock to 500.0 from 150.0.

On April 19, 2000, the Company's Board of Directors approved a two-for-one stock split effective May 12, 2000 for stockholders of record on May 1, 2000.

All share and per share data have been adjusted to reflect the increase in authorized shares and the stock split as though they had occurred at the beginning of the periods presented.

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

Note 8
Earnings per Share

The following table sets forth the computation of basic and diluted net earnings per share:

	2000	1999	1998
Net earnings	$221.0	$19.4	$60.0
Weighted-average shares outstanding for basic net earnings per share	195.1	193.8	192.6
Effect of dilutive employee stock options	6.0	4.8	3.7
Adjusted weighted-average shares outstanding for diluted net earnings per share	201.1	198.6	196.3
Basic net earnings per share	$1.13	$.10	$.31
Diluted net earnings per share	$1.10	$.10	$.31

Note 9
Retirement Plans

Certain of the Company's subsidiaries have defined benefit plans covering some or all of their employees. A summary of the information related to all of the Company's defined benefit plans is as follows:

	December 31	
	2000	*1999*
Change in benefit obligation:		
Benefit obligation at beginning of year	$67.6	$69.8
Service cost	3.8	4.5
Interest cost	3.9	3.9
Foreign exchange impact	(3.6)	(5.2)
Employee contributions	0.4	0.6
Plan amendments	2.4	2.7
Actuarial and curtailment gains	(0.2)	(3.0)
Benefits paid	(3.0)	(5.7)
Benefit obligation at end of year	71.3	67.6
Change in plan assets:		
Fair value of plan assets at beginning of year	60.9	59.6
Actual return	1.5	7.9
Employer contributions	2.5	2.3
Employee contributions	0.4	0.6
Foreign exchange impact	(2.5)	(3.8)
Benefits paid	(3.0)	(5.7)
Fair value of plan assets at end of year	59.8	60.9
Amount underfunded	(11.5)	(6.7)
Unrecognized net actuarial gain	(7.6)	(10.5)
Unrecognized transition amount	0.8	1.1
Unrecognized prior service cost	2.6	2.2
Accrued benefit cost	($15.7)	($13.9)
Amounts recognized in balance sheet:		
Prepaid benefit cost	–	$1.9
Accrued benefit liability	($15.7)	(15.8)
Net amount recognized	($15.7)	($13.9)
Weighted-average assumptions as of December 31:		
Discount rate	6.2%	6.0%
Expected return on plan assets	6.6%	6.6%
Rate of compensation increase	3.2%	3.2%

	2000	1999	1998
Components of net periodic benefit cost:			
Service cost	$3.8	$4.5	$0.9
Interest cost	3.9	3.9	0.4
Expected return on plan assets	(3.9)	(3.9)	(0.3)
Amortization of transition amounts and prior service cost	0.3	0.2	(0.1)
Recognized actuarial gain	(0.2)	(0.3)	–
Net periodic benefit cost	$3.9	$4.4	$0.9

At December 31, 2000, defined benefit plans with plan assets in excess of benefit obligations had plan assets totaling $23.4 and benefit obligations totaling $20.9, and defined benefit plans with benefit obligations in excess of plan assets had plan assets totaling $36.4 and benefit obligations totaling $50.4.

Retirement plan expense under the Company's profit sharing and defined contribution retirement plans totaled $32.7 in 2000, $31.9 in 1999 and $14.3 in 1998. A portion of the Company's retirement plan expenses was funded with Stryker common stock totaling $3.1 in 2000, $2.0 in 1999 and $1.7 in 1998. The use of Stryker common stock represents a noncash investing activity that is not reflected in the Consolidated Statements of Cash Flows.

Note 10
Income Taxes

Earnings before income taxes consist of the following:

	2000	1999	1998
United States operations	$197.4	$40.5	$66.9
Foreign operations	137.5	(10.7)	24.0
	$334.9	$29.8	$90.9

The components of the provision for income taxes follow:

	2000	1999	1998
Current:			
Federal	$44.8	$38.1	$56.9
State, including Puerto Rico	10.1	3.8	8.6
Foreign (credit)	30.3	17.2	(0.7)
	85.2	59.1	64.8
Deferred tax expense (credit)	28.7	(48.7)	(33.9)
	$113.9	$10.4	$30.9

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

	2000	1999	1998
U.S. statutory income tax rate	35.0%	35.0%	35.0%
Add (deduct):			
State taxes, less effect of federal deduction	1.7	10.7	3.4
Tax benefit relating to operations in Ireland and Puerto Rico	(6.9)	(30.5)	(5.7)
Earnings of Foreign Sales Corporation	(2.2)	(12.0)	(5.1)
Nondeductible permanent differences and purchased research and development	3.8	18.6	6.6
Tax benefit relating to foreign tax credit	(2.2)	(11.9)	–
Foreign income taxes at rates different from the U.S. statutory rate	7.0	27.6	(1.3)
Other	(2.2)	(2.6)	1.1
	34.0%	34.9%	34.0%

The large percentage fluctuations shown in the 1999 reconciliation are caused by the low base of pretax earnings used in the computation.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effect of significant temporary differences, which comprise the Company's deferred tax assets and liabilities, is as follows:

	December 31	
	2000	1999
Deferred tax assets:		
Inventories	$95.1	$96.5
Accounts receivable and other assets	11.9	8.0
Other accrued expenses	36.7	90.8
Depreciation and amortization	43.0	21.7
State taxes	7.1	5.4
Net operating loss carryforwards	38.4	34.0
Other	20.5	13.3
Total deferred tax assets	252.7	269.7
Deferred tax liabilities:		
Depreciation and amortization	(45.5)	(22.7)
Other accrued expenses	(4.6)	(18.6)
Other	(7.7)	(13.8)
Total deferred tax liabilities	(57.8)	(55.1)
Total net deferred tax assets	$194.9	$214.6

Net operating loss carryforwards totaling approximately $105.9 at December 31, 2000 are available to reduce future taxable earnings of certain foreign subsidiaries. A significant portion of these carryforwards may be carried forward indefinitely.

Deferred tax assets and liabilities are included in the Consolidated Balance Sheets as follows:

	December 31	
	2000	*1999*
Current assets—Deferred income taxes	$168.7	$227.0
Noncurrent assets—Deferred income taxes	84.0	42.7
Current liabilities—Accrued expenses and other liabilities	(7.3)	(22.5)
Noncurrent liabilities—Other liabilities	(50.5)	(32.6)
Total net deferred tax assets	$194.9	$214.6

No provision has been made for U.S. federal and state income taxes or foreign taxes that may result from future remittances of the undistributed earnings ($363.6 at December 31, 2000) of foreign subsidiaries because it is expected that such earnings will be reinvested overseas indefinitely. Determination of the amount of any unrecognized deferred income tax liability on these unremitted earnings is not practicable.

Total income taxes paid were $75.3 in 2000, $69.4 in 1999 and $56.2 in 1998.

Note 11
Segment and Geographic Data

The Company segregates its operations into two reportable business segments: Orthopaedic Implants and MedSurg Equipment. The Orthopaedic Implants segment sells orthopaedic reconstructive products such as hip, knee, shoulder and spinal implants and trauma-related products. The MedSurg Equipment segment sells powered surgical instruments, endoscopic systems, medical video imaging equipment and patient care and handling equipment. Other includes Physical Therapy Services and corporate administration, interest expense and interest income.

The Company's reportable segments are business units that offer different products and services and are managed separately because each business requires different manufacturing, technology and marketing strategies.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on net earnings of each segment. Identifiable assets are those assets used exclusively in the operations of each business segment or that are allocated when used jointly. Corporate assets are principally cash and cash equivalents, short-term investments and property, plant and equipment.

Sales and other financial information by business segment follows:

	Orthopaedic Implants	MedSurg Equipment	Other	Total
Year ended December 31, 2000				
Net sales	$1,313.0	$829.1	$147.3	$2,289.4
Interest income	–	–	4.1	4.1
Interest expense	–	–	96.6	96.6
Depreciation and amortization expense	132.8	29.6	6.2	168.6
Acquisition-related and restructuring charges (credits)	(1.8)	0.5	0.3	(1.0)
Income taxes (credit)	112.7	50.5	(49.3)	113.9
Segment net earnings (loss)	174.1	103.4	(56.5)	221.0
Total assets	1,739.1	588.2	103.5	2,430.8
Capital expenditures	56.5	19.1	5.1	80.7
Year ended December 31, 1999				
Net sales	1,248.2	733.5	122.0	2,103.7
Interest income	–	–	4.2	4.2
Interest expense	–	–	122.6	122.6
Depreciation and amortization expense	128.2	29.1	5.5	162.8
Additional cost of sales for inventory stepped-up to fair value	170.6	27.6	–	198.2
Acquisition-related and restructuring charges	9.5	9.4	–	18.9
Income taxes (credit)	43.9	21.8	(55.3)	10.4
Segment net earnings (loss)	30.8	68.0	(79.4)	19.4
Total assets	1,916.5	559.1	104.9	2,580.5
Capital expenditures	48.3	23.5	4.6	76.4
Year ended December 31, 1998				
Net sales	409.6	577.8	115.8	1,103.2
Interest income	–	–	16.5	16.5
Interest expense	–	–	12.2	12.2
Depreciation and amortization expense	32.2	16.1	4.9	53.2
Additional cost of sales for inventory stepped-up to fair value	7.3	0.5	–	7.8
Additional cost of sales for inventory repurchased from distributors	14.0	–	–	14.0
Purchased research and development	83.3	–	–	83.3
Acquisition-related and restructuring charges	7.8	–	11.2	19.0
Income taxes (credit)	(1.0)	33.6	(1.7)	30.9
Segment net earnings (loss)	0.2	68.8	(9.0)	60.0
Total assets	2,147.3	601.4	126.7	2,875.4
Capital expenditures	21.9	23.9	5.5	51.3

The Company's area of operations outside of the United States, Japan and Europe principally includes the Pacific, Canada, Latin America and the Middle East. Geographic information follows:

	Net Sales	Long-Lived Assets
Year ended December 31, 2000		
United States	$1,408.2	$715.4
Europe	380.5	472.9
Japan	280.1	119.3
Other foreign countries	220.6	42.2
	$2,289.4	$1,349.8
Year ended December 31, 1999		
United States	$1,228.4	$746.7
Europe	416.8	498.5
Japan	266.7	143.1
Other foreign countries	191.8	39.1
	$2,103.7	$1,427.4
Year ended December 31, 1998		
United States	$728.9	$827.0
Europe	135.3	541.5
Japan	131.3	141.6
Other foreign countries	107.7	32.7
	$1,103.2	$1,542.8

Gains (losses) on foreign currency transactions, which are included in other expense (income), totaled ($4.6), $1.0 and ($2.1) in 2000, 1999 and 1998, respectively.

Note 12
Leases

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

2001	$25.9
2002	27.9
2003	22.0
2004	86.4
2005	6.7
Thereafter	4.1
	$173.0

Rent expense totaled $42.2 in 2000, $42.3 in 1999 and $32.7 in 1998.

In December 1999, the Company entered into a five-year lease for a new office, manufacturing and distribution facility to be built in the United States. Under the lease, up to $70.0 will be funded by the lessor to complete the facility. Payments under the lease, which will commence in 2002, will be based on LIBOR plus an applicable margin ranging from 1.25% to 2.25% applied to the estimated cost of the facility. The Company has an option to renew the lease for an additional five-year period subject to certain conditions. If at the end of the lease term the Company does not purchase the property, the Company guarantees a residual value to the lessor of up to the lessor's net investment in the property.

Note 13
Contingencies

The Company is involved in various claims and legal actions arising in the normal course of business. The Company does not anticipate material losses as a result of these actions beyond amounts already provided in the accompanying financial statements.

Summary of Quarterly Data (Unaudited)
(dollars in millions, except per share data)

	2000 Quarter Ended				1999 Quarter Ended			
	Mar 31	June 30	Sept 30	Dec 31	Mar 31[a]	June 30	Sept 30	Dec 31
Net sales	$562.1	$566.5	$548.4	$612.4	$522.4	$523.3	$498.9	$559.1
Gross profit	360.5	363.5	353.7	396.5	255.8	260.2	255.9	342.1
Earnings (loss) before income taxes	78.5	79.8	75.8	100.8	(31.5)	(6.2)	0.2	67.3
Net earnings (loss)	51.8	52.7	50.0	66.5	(20.8)	(3.7)	0.1	43.8
Net earnings (loss) per share of common stock:								
Basic	.27	.27	.26	.34	(.11)	(.02)	.00	.23
Diluted	.26	.26	.25	.33	(.11)	(.02)	.00	.22
Market price of common stock:								
High	40.66	45.00	50.00	57.75	31.25	32.91	34.38	36.63
Low	24.39	31.13	38.63	38.50	22.22	23.88	24.94	24.31

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

(a) In the first quarter of 1999, the Company recorded a charge of $19.7 for the reorganization of Stryker's Japanese distribution operation to accommodate the integration with Howmedica and to discontinue the distribution of ophthalmology products in Japan.

Report of Independent Auditors

The Board of Directors and Stockholders of Stryker Corporation

We have audited the accompanying consolidated balance sheets of Stryker Corporation and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Grand Rapids, Michigan
January 31, 2001

Board of Directors

John W. Brown
Chairman, President and Chief Executive Officer,
Stryker Corporation

Howard E. Cox, Jr. †
General Partner, Greylock Partners & Co.

*Donald M. Engelman, Ph.D.**
Eugene Higgins Professor of Molecular Biophysics and Biochemistry, Yale University, and Director of the Division of Biological Sciences, Yale University

*Jerome H. Grossman, M.D.**
Chairman and Chief Executive Officer,
Lion Gate Management Corporation, and Chairman Emeritus of New England Medical Center, Inc.

John S. Lillard *
Chairman, Wintrust Financial Corporation

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

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

*Audit Committee
†Compensation Committee

Corporate Officers

John W. Brown
Chairman, President and Chief Executive Officer

J. Patrick Anderson
Vice President of Business Development and
Assistant to the Chairman

Dean H. Bergy
Vice President, Finance

Curtis E. Hall, Esq.
General Counsel

Christopher F. Homrich
Treasurer

Brian K. Hutchison
Vice President, Worldwide Product Development
and Distribution

Stephen Si Johnson
Vice President; Group President, MedSurg

William T. Laube, III
Vice President; President, Stryker Pacific

James R. Lawson
Vice President; President, Stryker Europe

Edward B. Lipes
Vice President; Group President,
Howmedica Osteonics

Michael R. Mainelli, Jr.
Vice President; President, Stryker Spine

Michael W. Rude
Vice President of Human Resources

David J. Simpson
Vice President, Chief Financial Officer
and Secretary

Thomas R. Winkel
Vice President of Administration

Jeffrey R. Winter
Controller

Howmedica Osteonics
Edward B. Lipes – Group President
Jeffrey B. Paulsen – Senior Vice President

MedSurg
Stephen Si Johnson – Group President
Stryker Canada
Robert E. Bentley – Vice President, General Manager
Stryker Endoscopy
William R. Enquist – President
Stryker Instruments
Curt R. Hartman – Vice President, General Manager
Stryker Latin America
Thomas A. Hedges – General Manager
Stryker Leibinger
Eric L. Teutsch – Vice President, General Manager
Stryker Medical
Patrick J. Beyer – Vice President, General Manager

Physiotherapy Associates
Jason T. Blackwood – President

Stryker Biotech
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Stryker Europe
James R. Lawson – President
Stryker Trauma
Vivian Masson – President

Stryker Japan
Yoshiaki Nakazawa – President

Stryker Pacific
William T. Laube, III – President

Stryker Spine
Michael R. Mainelli, Jr. – President

General Counsel
Winston & Strawn, New York, New York

Auditors
Ernst & Young LLP, Grand Rapids, Michigan

Transfer Agent and Registrar
First Chicago Trust, a division of EquiServe,
Jersey City, New Jersey

Shareholders needing information regarding their certificates or dividends should write or call: First Chicago Trust, a division of EquiServe, P.O. Box 2500, Jersey City, NJ 07303-2500 (1-800-446-2617).

Investor Contact
David J. Simpson, Vice President,
Chief Financial Officer and Secretary

Annual Meeting
The Annual Meeting of Stockholders of Stryker Corporation will be held at the Radisson Plaza Hotel at The Kalamazoo Center, Kalamazoo, Michigan, on Wednesday, April 25, 2001, at 2:00 p.m.

Form 10-K
The Company files Form 10-K with the Securities and Exchange Commission. Shareholders wishing a copy of the 2000 report may request it by writing to:

Secretary
Stryker Corporation
P.O. Box 4085
Kalamazoo, MI 49003-4085

Trademarks
Stryker Corporation or its subsidiaries own the registered trademarks: 3 Chip, Citation, Crossfire, Duracon, Hermes, Howmedica, Osteonics, Reliance, Scorpio, Solar, Stryker, Surgical Simplex, Trident and Xia, and the trademarks: Endosuite, Exeter, Gamma, Infravision, OP-1, PainPump, Restoration, Secur-Fit, Superflex, Switchpoint, TPS and Zoom drive. The service mark Physiotherapy Associates is also used in this report.

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

Financial Highlights
(in millions, except per share amounts)

	2000	1999
Net sales	$2,289.4	$2,103.7
Earnings before income taxes	334.9	29.8
Income taxes	113.9	10.4
Net earnings	221.0	19.4
Net earnings per share of common stock:		
Basic	$1.13	$.10
Diluted	$1.10	$.10
Average number of shares outstanding:		
Basic	195.1	193.8
Diluted	201.1	198.6

MEDICAL EQUIPMENT

Stryker Medical
Specialty hospital beds and stretchers, general patient-room beds and emergency medical service cots. Production facilities in Michigan and Canada.

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