

COVER PHOTO

Stryker's new image-guided system for total knee replacement helps the surgeon achieve highly accurate alignment and optimal soft tissue balancing.

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Stryker Corporation develops, manufactures and markets specialty surgical and medical products worldwide. These products include orthopaedic implants, trauma systems, the bone growth factor osteogenic protein-1, powered surgical instruments, endoscopic systems and patient care and handling equipment. The Company also provides outpatient rehabilitative health services in the United States. Stryker executes through 14 product and sales divisions, each of which drives toward the Company's exacting standards for quality, service, and growth.

STRYKER PRODUCT AND SALES DIVISIONS

ORTHOPAEDICS

Orthopaedic Implants

Stryker 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 craniomaxillofacial surgery; systems for image-guided surgery. Production facilities in 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.

Financial Highlights

(in millions, except per share amounts)

	2001	2000	% Change	
Net sales	\$2,602.3	\$2,289.4	14	
Earnings before income taxes and extraordinary item	405.7	334.9	21	
Income taxes	133.9	113.9	18	
Earnings before extraordinary item	271.8	221.0	23	
Extraordinary loss, net of income taxes	(4.8)	_	_	
Net earnings	\$267.0	\$221.0	21	
Diluted earnings per share of common stock:				
Before extraordinary item	\$1.34	\$1.10	22	
Extraordinary loss	(\$.02)	_	_	
Net earnings	\$1.32	\$1.10	20	

MEDICAL EQUIPMENT

REHABILITATIVE MEDICAL SERVICES

INTERNATIONAL SALES

Stryker Medical

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

Physiotherapy Associates

Outpatient rehabilitation services with a focus on physical and occupational therapy. More than 300 locations throughout the United States.

Stryker Europe

Sale and distribution of Stryker products throughout Europe, the Middle East and Africa.

Stryker Japan

Sale and distribution of Stryker products in Japan.

Stryker Pacific

Sale and distribution of Stryker products throughout
Asia and the Pacific, with the exception of Japan.

Stryker Canada

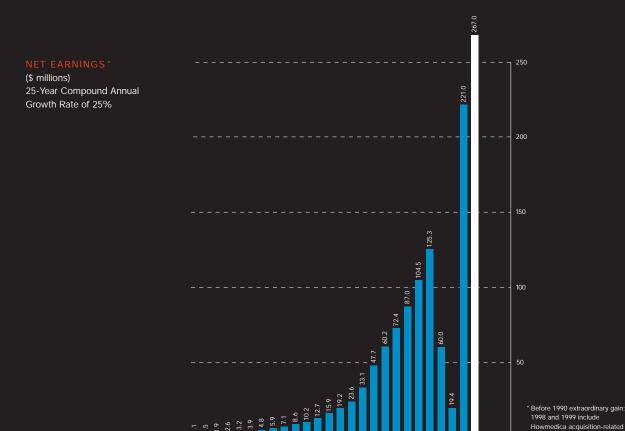
Sale and distribution of Stryker products in Canada.

Stryker Latin America

Sale and distribution of Stryker products throughout Central and South America, Mexico and the Caribbean.

Execution is Everything

Stryker Corporation holds itself to high standards of performance that benefit our customers, patients, employees and shareholders. Across our divisions, we execute consistently on all aspects of our business to deliver outstanding results. We are able to develop, manufacture and market best-in-class medical and surgical products because of our strategic vision, installed technology and intellectual property, innovation and market leadership. This focus on execution is responsible for our 25-year compound annual net earnings growth rate of 25 percent.



costs and charges.



To Our Shareholders:

A strongly held belief at Stryker is the importance of setting challenging goals and continually executing on all aspects of business fundamentals in order to achieve our targets. Our performance in 2001 bears out this approach. The Company had a very successful year, delivering solid sales growth, launching innovative new products and reaching a long-sought milestone with the marketing authorization for our bone growth factor, OP-1, for certain specific indications involving long-bone fractures.

We have exceeded our goal of at least 20 percent net earnings growth, which we believe is the best test of our ability to execute. For the year ended December 31, 2001, net sales rose 14 percent, to \$2,602 million, versus \$2,289 million in 2000. Earnings before an extraordinary item increased 23 percent, to \$272 million. Our diluted earnings per share before an extraordinary item increased 22 percent over 2000, to \$1.34. Net earnings were \$267 million, a 21 percent increase over the prior year. Cash flow from operations finished the year at \$468 million.

OP-1 Gains Marketing Authorization

In 2001, with the marketing approval of op-1 (osteogenic protein-1), our patented recombinant protein that induces bone formation, we reached a goal at which we have been aiming for 20 years. op-1 was approved in Australia, the European Union and the United States for treating specific trauma indications. Because the U.S. approval was the first for a bone morphogenic protein, it was especially challenging. The process involved significant information requests from the U.S. Food and Drug Administration and resulted in a narrowly defined approved indication under a Humanitarian Device Exemption. More detailed information on the approved indications is included later in this report.

Even as we celebrate this major accomplishment, we recognize that there is still much to be done in order to make op-1 a commercial success. As first steps, we have developed sales strategies for each of the three regions and launched the product in all of them. Concurrently, we are pursuing broader applications for op-1 by conducting clinical trials for spinal indications in North America and Japan.

New Product Group Formed

Recognizing both the potential and the challenges involved in the commercialization of op-1, the Company created a new product group, Stryker Biotech, Spine and Trauma, under the leadership of newly appointed Group President Jamie Kemler. Jamie, who joined Stryker in 1995 as General Manager of Stryker Biotech, became President of that division in 1996 and directed the regulatory process for op-1. In his new position, Jamie is also responsible for Stryker Spine and Stryker Trauma, the Company's two fastest-growing orthopaedic implant businesses. Spine and trauma indications will be key to the long-term success of op-1. In addition to the synergies among their products, our biotech, spine and trauma divisions are all organized globally.

To spearhead the commercialization of op-1, we have promoted Tim Scannell to Vice President and General Manager of Stryker Biotech. Tim was formerly Executive Vice President of Stryker Endoscopy, where he was responsible for that rapidly growing division's sales, marketing and operations.

Excellent Performance by Stryker Howmedica Osteonics and Stryker MedSurg Groups

Our U.S.-based product and sales groups delivered double-digit growth in 2001. Stryker Howmedica Osteonics, led by Group President Ned Lipes, launched new reconstructive implant products and ably marketed its strong product portfolio while making major manufacturing and distribution improvements and consolidating operations at its new campus in Mahwah, New Jersey. The Stryker MedSurg Group, under Group President Si Johnson, turned in an excellent performance with particularly strong showings by the Endoscopy and Medical divisions. In addition, our service division, Physiotherapy Associates, increased revenues by double digits through both acquisitions and same-store growth.

A Group Approach to International Sales

Stryker's reputation as an outstanding sales organization is largely attributable to the concerted focus we give to every aspect of the sales process. We have taken that focus one step further by promoting Ron Lawson to the new position of Group President, Stryker International. Ron joined

Stryker from Howmedica when that company was acquired in late 1998 and played a vital role in the integration of Howmedica and Stryker's former Osteonics division into the current Stryker Howmedica Osteonics. In early 2000, Ron was promoted to President of Stryker Europe. Under his leadership, Stryker Europe has strengthened its management team, sharpened its customer focus and improved its operating results. Ron is now responsible for Stryker's sales operations in Europe, Japan and the Pacific.

Luciano Cattani has succeeded Ron Lawson as President of Stryker Europe. He joined Stryker in 2001 as Senior Vice President of Stryker Europe after a long and successful career with Pfizer Italy and Howmedica Europe. We believe that Luciano will continue the leadership that Ron brought to Stryker Europe.

Yoshi Nakazawa, President of Stryker Japan, has done an excellent job this year managing challenging conditions in Japan, including price cuts. We expect him to continue his success with support from Ron Lawson, with whom he had a long working relationship at Howmedica.

In December, Bill Laube, President of Stryker Pacific, announced that he would retire from Stryker at year-end after 26 years of service. At the time of his retirement, Bill was the Company's most tenured officer. He joined Stryker in 1975 as President of Stryker International and tirelessly traveled the globe, single-handedly establishing most of our international distributor relationships and positioning us as a leading worldwide orthopaedic device company. As a result of Bill's pioneering efforts, Stryker's international sales—a mere \$3 million when he joined the Company reached over \$900 million in 2001. In 1985, Bill was appointed to the presidency of Stryker Pacific and developed business in the region from his base in Hong Kong. I would like to pay my deepest personal respects to Bill for his many achievements as Stryker's "Mr. International," and to thank him for agreeing to serve as an advisor to me as Chairman of Stryker Pacific.



Bill Laube's retirement has occasioned several other management changes at Stryker, and we are proud that our "deep bench" has allowed us to make these changes with proven members of our team. All of these promotions will support our strong sales organizations and product divisions.

Andrew Fox-Smith has been promoted to Vice President and General Manager of Stryker Pacific, based in Hong Kong and reporting to Ron Lawson. Andrew, who was most recently Stryker's Managing Director for U.K./Ireland/South Africa, was instrumental in the successful integration of Howmedica and Stryker in the United Kingdom and Ireland. Earlier, with Howmedica, he gained broad experience in the Pacific as a leading sales representative in Australia and a Regional Manager for Asia.

Pat Beyer, most recently Vice President and General Manager of Stryker Medical, was appointed Managing Director for U.K./Ireland/South Africa. Pat held a number of key positions for Stryker in Europe before returning to Kalamazoo in 1998 to lead our founding division, where he has grown both sales and operating income at an exceptional rate. Jim Cunniff, formerly Vice President of Marketing at Stryker Medical, has been promoted to Vice President and General Manager of the division.

Continual Improvement

Stryker is committed to delivering superior results to our shareholders. To make good on that commitment, we realize that we must continually improve our work in product development, manufacturing and distribution, and sales. Because quality is a primary requirement for our products,

which are regulated in every market in which we compete, we have formed a steering committee to provide greater corporate oversight of our worldwide quality and regulatory activities. This committee will facilitate the implementation of common standards, metrics and best practices across divisions.

With all of the Company's strengths, and with outstanding line managers—Si Johnson, Jamie Kemler, Ron Lawson and Ned Lipes—heading up our four groups, I look forward to a future of high growth for Stryker. I want to thank our shareholders for their confidence in the Company and our employees for their hard work in 2001.

Sincerely,

John W. Brown

Chairman, President and Chief Executive Officer

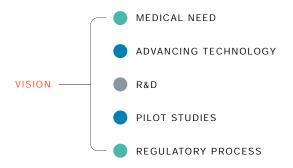




ANTICIPATE THE FUTURE

Stryker's vision of the future encompasses many factors. Emerging medical needs are often defined by societal conditions. In the United States, Europe and Japan, the world's three major medical markets, an aging population creates demand for more orthopaedic solutions. At the same time, this population has greater expectations for activity, culturally appropriate solutions and overall quality of life than ever before, pointing to a need for innovative, high-performance products. Broad advances in technology, such as the advent of biotechnology or wireless communications, present opportunities to customize and apply these innovations to Stryker's existing and potential markets.







A Global View

Stryker's vision of the future in orthopaedics was confirmed in 2001 by the marketing approval and subsequent launches of op-1, our proprietary bone growth factor, in Australia, the European Union and the United States for a specific approved indication in each jurisdiction. These approvals were the first for a bone morphogenic protein in each of the three jurisdictions, and they led to our next step into the future—the creation of the Biotech, Spine and Trauma Group. This group has a global focus in product development and manufacturing, and more than 60 percent of its products are sold outside the United States. We expect that this new structure will further accelerate the fast-growing spine and trauma divisions of the Company, and that it will enable us to enhance future opportunities for synergy between spine and trauma products and op-1.

Each of the three specific approved indications for op-1 involves nonunion—or difficult-to-heal—fractures of long bones. The op-1 is mixed with a collagen carrier and wetted to form a paste that is surgically implanted into the fracture gap. Australia, where op-1 has been employed for several years on a compassionate use basis, issued the broadest approval, covering the treatment of long-bone fractures secondary to trauma. The European authorization covers the treatment of nonunion of the tibia of at least nine months' duration, secondary to trauma, in skeletally mature patients for whom autograft has failed or is not feasible.

In the United States, the Food and Drug Administration (fda) approved op-1 as a humanitarian use device, one that may be used to treat conditions that are manifested in fewer than 4,000 patients in the United States per year. The approved indication in the United States is as an alternative to autograft in recalcitrant long-bone nonunions where autograft is unfeasible and alternative treatments have failed.

We launched op-1 successively in Australia, Europe and the United States during the spring, summer and fall. While we have developed sales strategies appropriate to each regional market and approved indication, they all share the primary objective of educating orthopaedic surgeons about the product. In the United States and Australia, we have developed specialist sales forces, and in Europe, we are selling on a country-by-country basis via a specially trained group of our trauma sales representatives.

Stryker continues to seek approval for broader indications for op-1. We have initiated a multicenter pivotal trial for posterolateral spine fusion in the United States and Canada, and we expect to complete enrollment in 2002. Additionally, enrollment in a single-site clinical feasibility study has been completed for a similar indication in Japan, and we are in the process of submitting an application for a multicenter trial. The market for posterolateral spine treatment is large and growing. The current clinical investigations of op-1 could lead both to better outcomes for patients and cost savings for the health-care system.





ment technology.

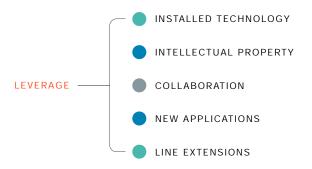






BUILD ON THE BEST

In developing new products and extended lines, Stryker draws on the Company's rich intellectual property portfolio. We incorporate design philosophies, specialized design and engineering features and proprietary materials to create improved and next-generation products and more comprehensive lines. Prime examples include Crossfire, our patented highly crosslinked polyethylene, which is now incorporated into nearly 70 percent of our hip implant liners, and the unique Scorpio knee geometry, which serves as the platform for several advanced knee systems. In both hip and knee implants, we have extended our successful product lines to create revision and early intervention implants and to address specialized regional and clinical needs.





Capitalizing on Stryker's Strengths

With established intellectual property and strong patent positions, Stryker executes to extend the reach of its materials and technology within and across its product lines and divisions. For example, our tmzf alloy, a titanium-based metal with increased flexibility and strength, was developed by Stryker Howmedica Osteonics for our Citation hip system. It is now used not only in other hip implants, but also in Stryker Spine's new Reflex cervical system.

Outstanding designs and technologies also provide platforms for new products that address different needs. The Zoom drive, the only motorized patient handling device that increases patient mobility, eliminates the need for transfers to accomplish specialized medical procedures and reduces strain on hospital staff, was launched by Stryker Medical in late 1999 in critical care beds. In 2001, we introduced the Zoom drive in medical-surgical beds. The Xia Spinal System, a titanium rod and screw system that was successfully launched in 2000, now has a counterpart in stainless steel designed to address deformities. The newly introduced t2 nail for long-bone fractures builds on our long history of innovation in intramedullary nailing technology.

In hip and knee implants, we offer comprehensive lines to fill every need from early intervention to revision. By using the same geometries and instrumentation throughout a line, we offer the surgeon both ease of use and greater intraoperative choice. In 2001—its first full year on the market—our Scorpio ts revision knee system achieved stellar sales growth. The Scorpio ts is designed to work with the Modular Rotating Hinge (mrh)—also introduced in 2001—and the Modular Revision System (mrs). Using a single set of bone cuts, the surgeon can begin the procedure and then choose the most appropriate of these three implants depending on the amount of bone remaining. Our revision hip portfolio also provides an extended-indication product line to address problems including bone loss and anatomical deficiencies.

We have taken a similar approach to addressing regional needs, particularly in Japan, which has different size, range-of-motion and flexion requirements than the United States and Europe. In 2000, we adapted our Scorpio knee for Japan, branding it Superflex, and in 2001 we did the same with our Eon and Secur-fit hips, known as Super Eon and Super Secur-fit in their Japanese versions.



>> SCORPIO+ MOBILE BEARING KNEE SYSTEM

This year, Stryker extended the Scorpio knee geometry to enter the mobile bearing knee market in Europe and Australia. We are currently anticipating marketing approval for this system in Japan, and we have initiated an Investigational Device Exemption (IDE) study in the United States. The Scorpio+ system tibial insert allows rotation to occur more naturally, finding its position according to the anatomy of the individual patient. Scorpio's

single-radius design lends itself particularly well to a mobile bearing system, and Stryker has engineered unique, patented features into Scorpio+, which allow the surgeon to make intraoperative choices about the retention or removal of the cruciate ligament.

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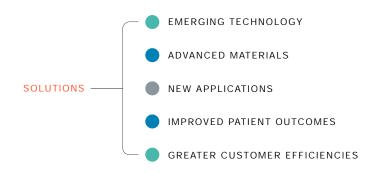


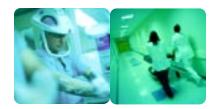




DRIVE INNOVATION

Today, innovation is essential to success, whether the goal is to enter a market, become a major player or maintain a leadership position. Even in emerging markets, there is high demand for advanced technology that better serves patients, offers greater ease of use to physicians and clinical personnel and ultimately drives down costs for hospitals. Stryker executes on our long-term commitment to research and development and continuous improvement in order to meet this demand. We recognize that innovation involves not only developing new products, but also looking creatively at existing products and market opportunities.





Innovation in the OR

Stryker has introduced innovations that are changing the operating-room experience for patients, surgeons and staff while supporting the overall operations and marketing objectives of hospitals and health-care systems.

Stryker Endoscopy's Endosuites, for example, provide a major advance in OR design and functionality through the integration of communications technology to support surgical procedures. Introduced in 1992 and now in use in more than 600 facilities in the United States and abroad, these fully functioning operating suites support minimally invasive surgery across virtually all specialties. Stryker Endoscopy has continually improved the communications devices and regularly added new components—in 2001, a video camera with fully digital output and surgeons' digital video loupes.

Stryker Leibinger has been an industry innovator in the development of image-guided surgical systems, producing the only such systems that offer active two-way wireless communication between the surgical instrument and the camera. Leibinger's system for image-guided functional neurosurgery was introduced in 2000, and the division is delivering on the promise of this technology for other specialties including spinal and ear, nose and throat surgery.

In 2001, Leibinger introduced the Stryker Knee Navigation System, its first image-guided orthopaedic system, in Europe. The U.S. launch followed in January 2002. This system is designed to work in concert with Stryker

Howmedica Osteonics' knee implants. In Germany, where the reception of this product has been particularly enthusiastic, Stryker has been steadily generating new customers for both the navigation system and knee implants themselves. Approximately half of the German knee navigation system customers had not been using Stryker implants prior to purchasing the system but have since converted to our lines. We are now seeing similar opportunities in other European countries.

Execution of this product launch required collaboration among three Stryker divisions. All of the navigation software components are made in Leibinger's vertically integrated facility in Germany. Stryker Instruments developed and manufactures the instrumentation. Stryker Howmedica Osteonics contributed its orthopaedic expertise to assure that the system would be compatible with its implants. This division and Leibinger have teamed up to sell the system in the United States.

In 2001, Stryker Medical, our founding division, brought a revolutionary product for the OR to the market. The Trio system redefines the actual operating platform, enabling a patient to move from preoperative preparation through surgery and to postoperative recovery without being transferred from surface to surface.



>> STRYKER KNEE NAVIGATION SYSTEM

Stryker's surgical navigation system for total knee replacement offers unequaled technology for the accurate alignment of the knee. It provides the surgeon with assessments of the patient's joint kinematic measurements before and after the surgical cuts are made and during the procedure. It also gives a unique visualization tool for soft tissue balancing. The system, shown here during surgery by Kenneth A. Krackow, M.D., at Buffalo General Hospital

in Buffalo, New York, was introduced in the United States in January 2002 following the well-received European launch in the summer of 2001. Because this system also provides total documentation on each patient, it is especially valuable in large teaching institutions such as Buffalo General, and to the opinion leaders who practice in such settings.



>> OPTIVU HDVD



A leader in innovative technology to support minimally invasive surgery, Stryker Endoscopy introduced a new digital platform in late 2001 with its OptiVu HDVD wireless imaging system. Using OptiVu's digital video loupes (DVLs), surgeons can view surgical images while maintaining a natural head and neck position. This lightweight "heads-up" display improves surgical visualization by aligning the image with the surgeon's hands. It also reduces the number of video monitors required in the OR and eliminates the need to reposition the monitors during a procedure.

>> TRIDENT CERAMIC ACETABULAR SYSTEM

The Trident system from Stryker Howmedica Osteonics is an advanced hip replacement product particularly suited to the needs of younger, more active patients. Trident features alumina ceramic bearing surfaces, which have been shown in the laboratory to exhibit 200 times less wear than conventional metal on polyethylene surfaces. This product has met with wide

acceptance and delivered outstanding clinical results in Europe, Canada and Australia. Similar clinical results have been demonstrated in U.S. trials, and we continue to work with the FDA and our ceramic supplier to obtain regulatory approval.

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LEAD THE MARKET

Staying ahead of the curve requires focus on all aspects of the business, from R&D to distribution, from customers to patients. Technological innovation, continuous improvement, comprehensive product lines, and adding new platforms in established markets are all critically important to this process. At Stryker, we are keenly aware that the factors that help us lead the market can also help our customers—physicians and hospitals alike—attract new patients and excel in their markets. Ultimately, being close to the customer through sales, service, education and training provides a constant source of ideas for new products and service offerings.





Building and Extending the Franchise

The performance of Stryker Instruments provides an instructive case study of leadership and execution. By developing and manufacturing best-in-class products, this division is the undisputed market leader in heavy-duty surgical instruments. It maintains that position by continually upgrading and improving the power and speed of these instruments, such as the System 4 fourth-generation cordless driver for total joint replacement surgery.

Stryker Instruments has extended its franchise beyond heavy-duty instruments by building strength in micropowered surgical instruments with the Total Performance System (tps). Here, too, continuous improvement is the rule, demonstrated by the recent redesign of core components of the system to increase speed and efficiency. Additionally, this division regularly develops new systems of attachments for key surgical specialties. In 2001, Stryker Instruments introduced the latest such system—the Elite line of attachments for the fast-growing specialties of neurosurgery and spine surgery. It has also replaced its earlier generation of attachments for ear, nose and throat procedures with the advanced Saber system.

This division has also introduced new platforms within its hospital market, including pain management and operating room waste management. Because manufacturing and service initiatives are critical to market leadership, Stryker Instruments and other Stryker divisions have implemented production and distribution systems and customer service programs most suited to their markets and technologies.

Our international sales reorganization reflects the importance of focus to sales success. Following the encouraging European turnaround, we look forward to improvements in Japan and the Pacific. The excellent performance of Stryker Canada in 2001 exemplifies how focus and management skill can make a challenging market productive, and we believe that this approach will yield positive results in Latin America over the long term.

Physiotherapy Associates, Stryker's service business, continues to execute on its strategy and deliver strong results. This division delivered double-digit same-store growth in 2001, while adding 49 new locations evenly divided between acquisitions and newly developed facilities. It closed the year with 302 locations. Among these are 10 specialized pediatric facilities—all developed in 2001—that address developmental delays with a team approach drawing on the expertise of physical, occupational and speech therapists.



>> EIUS UNI KNEE SYSTEM

Stryker entered the growth area of early intervention knee surgery with the global launch of the EIUS system in the fourth quarter of 2001. This unicompartmental product is designed to conserve bone in situations where only one portion of the knee is worn, and the precision instrumentation facilitates a minimally invasive procedure with accurate alignment. This approach can shorten hospital stays to one day, decrease soft-tissue damage and hasten rehabilitation.

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>> TPS

U2 DRILL WITH ELITE ATTACHMENTS

Stryker is methodically expanding the applications for its best-in-class TPS (Total Performance System) micropowered surgical instruments by introducing new attachments to work with the powerful U2 drill. In 2001, we launched the Elite line of attachments to serve the growing neurosurgery and spine surgery markets. These attachments are ergonomically designed and provide a better line of sight,

enabling the surgeon to work with greater precision and control. Because these attachments accommodate a single bur that the surgeon can customize to any of five lengths, the Elite system helps hospitals simplify and reduce inventory.





DIGITAL 3-CHIP CAMERA

Building on Stryker Endoscopy's leadership position in medical video imaging and six previous generations of our 3-chip cameras, in August we launched the first digital output video camera in the medical industry to immediate sales success. The 988 Digital 3-Chip Camera offers multiple pure digital outputs and can provide analog outputs as well. Because it is effective across a number of surgical specialties, the 988 camera helps hospitals standardize operatingroom equipment.

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>> PAINPUMP Postoperative pain management is proving to be a successful new platform for Stryker Instruments. The Stryker PainPump delivers a continuous, controlled infusion of local anesthetic directly to the surgical area. This safe

and convenient technology not only eases postoperative discomfort, but it also reduces patient downtime and rehabilitation requirements.



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Notes alses \$2,602.3 \$2,289.4 \$2,103.7 Cost of sales: Before inventory step-up 963.8 815.2 791.5 Inventory step-up - - 198.2 Total cost of sales 963.8 815.2 989.7 Gross profit 1,638.5 1,474.2 1,114.0 Research, development and engineering expenses 142.1 122.2 105.2 Selling, general and administrative expenses 985.4 885.6 808.4 Purchased research and development - - - - Acquisition-related, restructuring and special charges (credits) 0.6 (1.0 18.8 Gain on patent judgment - - - - Chypering before extructuring and special charges (credits) 104.7 132.5 151.7 Earnings before income taxes 104.7 132.5 151.7 Earnings before income taxes and extraordinary item 405.7 334.9 29.8 Extraordinary loss, net of income taxes 428.0 21.0 194. Extraordinary loss, ne	Summary of Operations	2001	2000	1999
Before inventory step-up G- G- G- G- G- G- G- G	Net sales	\$2,602.3	\$2,289.4	\$2,103.7
Inventory step-up	Cost of sales:			
Total cost of sales	Before inventory step-up	963.8	815.2	791.5
Research, development and engineering expenses	Inventory step-up		-	198.2
Research, development and engineering expenses 142.1 122.2 105.2	Total cost of sales	963.8	815.2	989.7
Selling, general and administrative expenses 985.4 885.6 808.4 Purchased research and development - - - Acquisition-related, restructuring and special charges (credits) 0.6 (1.0) 18.9 Gain on patent judgment - - - - Cain on patent judgment 104.7 132.5 151.7 Earnings before income 104.7 132.5 151.7 Earnings before income taxes and extraordinary item 405.7 334.9 29.8 Income taxes 133.9 113.9 10.4 Earnings before extraordinary item 271.8 221.0 19.4 Extraordinary loss, net of income taxes (4.8) - - - Net earnings \$267.0 \$221.0 \$19.4 Net earnings per share of common stock ^(a) \$1.38 \$1.13 \$1.0 Diluted \$1.34 \$1.10 \$1.0 Dividend per share of common stock ^(a) \$1.0 \$0.8 \$0.65 Average number of shares outstanding – in millions ^(a) : \$1.0 <t< td=""><td>Gross profit</td><td>1,638.5</td><td>1,474.2</td><td>1,114.0</td></t<>	Gross profit	1,638.5	1,474.2	1,114.0
Purchased research and development	Research, development and engineering expenses	142.1	122.2	105.2
Acquisition-related, restructuring and special charges (credits) 0.6 (1.0) 18.9 Gain on patent judgment - - - - 1,128.1 1,006.8 932.5 Other expense (income) 104.7 132.5 151.7 Earnings before income taxes and extraordinary item 405.7 334.9 29.8 Income taxes 133.9 113.9 10.4 Earnings before extraordinary item 271.8 221.0 19.4 Extraordinary loss, net of income taxes (4.8) - - Net earnings 2867.0 \$221.0 \$19.4 Extraordinary loss, net of income taxes (4.8) - - Net earnings \$2867.0 \$221.0 \$19.4 Extraordinary loss, net of income taxes \$1.80 \$1.13 \$10 Net earnings \$1.340 \$1.10 \$10 Diluted \$1.340 \$1.10 \$10 Diluted \$1.340 \$1.10 \$10 Average number of shares outstanding - in millions ⁶⁰ : \$20.0	Selling, general and administrative expenses	985.4	885.6	808.4
Cain on patent judgment	Purchased research and development	_	-	_
Other expense (income) 104.7 132.5 151.7 Earnings before income taxes and extraordinary item 405.7 334.9 29.8 Income taxes 133.9 113.9 10.4 Earnings before extraordinary item 271.8 221.0 19.4 Extraordinary loss, net of income taxes (4.8) - - Net earnings per share of common stock ⁽⁶⁾ : \$267.0 \$221.0 \$19.4 Net earnings per share of common stock ⁽⁶⁾ : \$1.38(6) \$1.13 \$1.0 Diluted \$1.34(6) \$1.10 \$1.0 \$1.0 Diluted per share of common stock ⁽⁶⁾ : \$1.0 \$.08 \$.065 Average number of shares outstanding – in millions ⁽⁶⁾ : \$1.96.3 \$195.1 \$193.8 Diluted \$203.0 \$201.1 \$198.6 6) Excludes net extraordinary loss per share of \$.02 basic and \$.02 diluted. \$201.1 \$198.6 6) Excludes net extraordinary loss per share of \$.02 basic and \$.02 diluted. \$10.1 \$40 \$3.5 6) Excludes net extraordinary loss per share of \$.02 basic and \$.02 diluted. \$0.1 \$40 \$3.	Acquisition-related, restructuring and special charges (credits)	0.6	(1.0)	18.9
Other expense (income) 104.7 132.5 151.7 Earnings before income taxes and extraordinary item 405.7 334.9 29.8 Income taxes 133.9 113.9 10.4 Earnings before extraordinary item 271.8 221.0 19.4 Extraordinary loss, net of income taxes (4.8) - - Net earnings \$267.0 \$221.0 \$19.4 Net earnings per share of common stock(a): \$13.8 \$1.13 \$1.0 Diluted \$1.34 \$1.10 \$1.0 Dividend per share of common stock(a) \$1.0 \$0.8 \$.065 Average number of shares outstanding – in millions(a): \$1.96.3 \$195.1 \$193.8 Diluted \$203.0 \$201.1 \$198.6 (a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000. \$201.0 \$201.1 \$198.6 (b) Excludes ne estraordinary loss per share of \$0.02 basic and \$0.02 diluted. \$203.0 \$201.1 \$3.5 Vorking capital \$5.0 \$5.0 \$3.5 Cash and marketable securities <td< td=""><td>Gain on patent judgment</td><td></td><td>-</td><td><u> </u></td></td<>	Gain on patent judgment		-	<u> </u>
Earnings before income taxes and extraordinary item 133.9 113.9 10.4 Earnings before extraordinary item 271.8 221.0 19.4 Extraordinary loss, net of income taxes (4.8)		1,128.1	1,006.8	932.5
Earnings before income taxes and extraordinary item	Other expense (income)	104.7	132.5	151.7
Earnings before extraordinary item 271.8 221.0 19.4 Extraordinary loss, net of income taxes (4.8) — — Net earnings 3267.0 \$221.0 \$19.4 Net earnings per share of common stock(a): S1.38(b) \$1.13 \$1.0 Diluted \$1.34(b) \$1.10 \$1.0 Dividend per share of common stock(a) \$1.0 \$0.8 \$0.65 Average number of shares outstanding – in millions(a): 196.3 195.1 193.8 Diluted 203.0 201.1 198.6 (a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000. 201.1 198.6 (b) Excludes net extraordinary loss per share of \$0.02 basic and \$0.02 diluted. 200.0 201.1 198.6 Cash and marketable securities 50.1 54.0 83.5 Working capital 459.7 379.6 440.8 Current ratio 1.9 1.6 1.7 Property, plant and equipment – net 444.0 378.1 391.5 Capital expenditures 161.9 80.7 76		405.7	334.9	29.8
Extraordinary loss, net of income taxes (4.8) – – Net earnings \$267.0 \$221.0 \$19.4 Net earnings per share of common stock(a) \$1.38(b) \$1.13 \$1.0 Diluted \$1.34(b) \$1.10 \$1.0 Dividend per share of common stock(a) \$1.0 \$0.8 \$0.65 Average number of shares outstanding – in millions(a): \$1.96.3 \$195.1 \$193.8 Diluted \$203.0 \$201.1 \$198.6 (a) Adjusted for the two-for-one stock splits effective lune 10, 1996 and May 12, 2000. \$200.0 \$201.1 \$198.6 (b) Excludes net extraordinary loss per share of \$0.02 basic and \$0.02 diluted. \$200.0 \$201.1 \$198.6 Cash and marketable securities \$50.1 \$200.0 \$1999 Cash and marketable securities \$50.1 \$4.0 \$3.5 Working capital \$459.7 \$379.6 \$44.0 Current ratio \$1.9 \$1.6 \$1.7 Property, plant and equipment – net \$444.0 \$378.1 \$391.5 Capital expenditures \$161.	Income taxes	133.9	113.9	10.4
Extraordinary loss, net of income taxes (4.8) – – Net earnings \$267.0 \$221.0 \$19.4 Net earnings per share of common stock(a) \$1.38(b) \$1.13 \$1.0 Diluted \$1.34(b) \$1.10 \$1.0 Dividend per share of common stock(a) \$1.0 \$0.8 \$0.65 Average number of shares outstanding – in millions(a): \$1.96.3 \$195.1 \$193.8 Diluted \$203.0 \$201.1 \$198.6 (a) Adjusted for the two-for-one stock splits effective lune 10, 1996 and May 12, 2000. \$200.0 \$201.1 \$198.6 (b) Excludes net extraordinary loss per share of \$0.02 basic and \$0.02 diluted. \$200.0 \$201.1 \$198.6 Cash and marketable securities \$50.1 \$200.0 \$1999 Cash and marketable securities \$50.1 \$4.0 \$3.5 Working capital \$459.7 \$379.6 \$44.0 Current ratio \$1.9 \$1.6 \$1.7 Property, plant and equipment – net \$444.0 \$378.1 \$391.5 Capital expenditures \$161.	Earnings before extraordinary item	271.8	221.0	19.4
Net earnings \$267.0 \$221.0 \$19.4 Net earnings per share of common stock (a): \$1.38(b) \$1.13 \$1.0 Diluted \$1.34(b) \$1.10 \$1.0 Dividend per share of common stock (a) \$1.0 \$.08 \$.065 Average number of shares outstanding – in millions (a): \$1.96.3 1.95.1 1.93.8 Diluted 203.0 201.1 1.98.6 (a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000. \$200.0 201.1 1.98.6 (a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000. \$200.0 201.1 1.98.6 (a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000. \$200.0 201.1 1.98.6 (a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000. \$200.0 201.1 1.98.6 (a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000. \$200.0 201.1 1.98.6 (a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000. \$200.0 \$200.0 1.99.9 Cash and marketable securities <	· · · · · · · · · · · · · · · · · · ·	(4.8)	_	_
Basic Diluted \$1.38(b) \$1.13 \$1.00 Dividend per share of common stock(a) \$1.34(b) \$1.10 \$1.00 Average number of shares outstanding − in millions(a): \$1.10 \$0.08 \$0.65 Average number of shares outstanding − in millions(a): \$1.96.3 \$195.1 \$193.8 Diluted 203.0 201.1 \$198.6 (a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000. \$1.90 \$20.00 \$20.1 \$198.6 (a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000. \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.6 \$1.70 \$1.70 \$1.90 \$1.50 \$1.70 \$1.90 \$1.50 \$1.70 \$1.90 \$1.50 \$1.70 \$1.90 \$1.70 \$1.90 \$1.50 \$1.70 \$1.90 \$1.50 \$1.70 \$1.90 \$1.50 \$1.70 \$1.70 \$1.90 \$1.90 \$1.90	·	\$267.0	\$221.0	\$19.4
Basic Diluted \$1.38(b) \$1.13 \$1.00 Dividend per share of common stock(a) \$1.34(b) \$1.10 \$1.00 Average number of shares outstanding − in millions(a): \$1.10 \$0.08 \$0.65 Average number of shares outstanding − in millions(a): \$1.96.3 \$195.1 \$193.8 Diluted 203.0 201.1 \$198.6 (a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000. \$1.90 \$20.00 \$20.1 \$198.6 (a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000. \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.90 \$1.6 \$1.70 \$1.70 \$1.90 \$1.50 \$1.70 \$1.90 \$1.50 \$1.70 \$1.90 \$1.50 \$1.70 \$1.90 \$1.70 \$1.90 \$1.50 \$1.70 \$1.90 \$1.50 \$1.70 \$1.90 \$1.50 \$1.70 \$1.70 \$1.90 \$1.90 \$1.90	Net earnings per share of common stock ^(a) :			
Dividend per share of common stock(a) S.10 S.08 S.065	Basic	\$1.38 ^(b)	\$1.13	\$.10
Average number of shares outstanding – in millions(a): Basic 196.3 195.1 193.8 195.1 198.6 196.3 195.1 198.6 198.6 199.0 201.1 198.6 198.	Diluted	\$1.34 ^(b)	\$1.10	\$.10
Basic 196.3 195.1 193.8 Diluted 203.0 201.1 198.6 (a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000. (b) Excludes net extraordinary loss per share of \$0.02 basic and \$0.02 diluted. 2001 2000 1999 Cash and marketable securities 50.1 54.0 83.5 Working capital 459.7 379.6 440.8 Current ratio 1.9 1.6 1.7 Property, plant and equipment – net 444.0 378.1 391.5 Capital expenditures 161.9 80.7 76.4 Depreciation and amortization 172.0 168.6 162.8 Total assets 2,423.6 2,430.8 2,580.5 Long-term debt, including current maturities 722.6 1,012.5 1,287.4 Stockholders' equity 1,056.2 854.9 671.5 Return on average equity 27.9% 29.0% 2.9% Net cash provided by operating activities 468.3 331.8 284.0 Number of stockholders of record 2,886 2,904 2,929	Dividend per share of common stock ^(a)	\$.10	\$.08	\$.065
Diluted 203.0 201.1 198.6 (a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000. (b) Excludes net extraordinary loss per share of \$.02 basic and \$.02 diluted. Financial and Statistical Data 2001 2000 1999 Cash and marketable securities 50.1 54.0 83.5 Working capital 459.7 379.6 440.8 Current ratio 1.9 1.6 1.7 Property, plant and equipment – net 444.0 378.1 391.5 Capital expenditures 161.9 80.7 76.4 Depreciation and amortization 172.0 168.6 162.8 Total assets 2,423.6 2,430.8 2,580.5 Long-term debt, including current maturities 722.6 1,012.5 1,287.4 Stockholders' equity 1,056.2 854.9 671.5 Return on average equity 27.9% 29.0% 2.9% Net cash provided by operating activities 468.3 331.8 284.0 Number of stockholders of record 2,886 2,904 2,929	Average number of shares outstanding – in millions ^(a) :			
(a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000. (b) Excludes net extraordinary loss per share of \$.02 basic and \$.02 diluted. Financial and Statistical Data Cash and marketable securities 50.1 459.7 379.6 440.8 Current ratio 1.9 1.6 1.7 Property, plant and equipment – net 444.0 378.1 391.5 Capital expenditures 161.9 80.7 76.4 Depreciation and amortization 172.0 168.6 162.8 Total assets 2,423.6 2,430.8 2,580.5 Long-term debt, including current maturities 722.6 1,012.5 1,287.4 Stockholders' equity 1,056.2 854.9 671.5 Return on average equity 72.9% 29.0% 2.9% Net cash provided by operating activities Number of stockholders of record 2,886 2,904 2,929	Basic	196.3	195.1	193.8
Financial and Statistical Data 2001 2000 1999	Diluted	203.0	201.1	198.6
Cash and marketable securities 50.1 54.0 83.5 Working capital 459.7 379.6 440.8 Current ratio 1.9 1.6 1.7 Property, plant and equipment – net 444.0 378.1 391.5 Capital expenditures 161.9 80.7 76.4 Depreciation and amortization 172.0 168.6 162.8 Total assets 2,423.6 2,430.8 2,580.5 Long-term debt, including current maturities 722.6 1,012.5 1,287.4 Stockholders' equity 1,056.2 854.9 671.5 Return on average equity 27.9% 29.0% 2.9% Net cash provided by operating activities 468.3 331.8 284.0 Number of stockholders of record 2,886 2,904 2,929				
Cash and marketable securities 50.1 54.0 83.5 Working capital 459.7 379.6 440.8 Current ratio 1.9 1.6 1.7 Property, plant and equipment – net 444.0 378.1 391.5 Capital expenditures 161.9 80.7 76.4 Depreciation and amortization 172.0 168.6 162.8 Total assets 2,423.6 2,430.8 2,580.5 Long-term debt, including current maturities 722.6 1,012.5 1,287.4 Stockholders' equity 1,056.2 854.9 671.5 Return on average equity 27.9% 29.0% 2.9% Net cash provided by operating activities 468.3 331.8 284.0 Number of stockholders of record 2,886 2,904 2,929	Financial and Statistical Data	2001	2000	1999
Working capital 459.7 379.6 440.8 Current ratio 1.9 1.6 1.7 Property, plant and equipment – net 444.0 378.1 391.5 Capital expenditures 161.9 80.7 76.4 Depreciation and amortization 172.0 168.6 162.8 Total assets 2,423.6 2,430.8 2,580.5 Long-term debt, including current maturities 722.6 1,012.5 1,287.4 Stockholders' equity 1,056.2 854.9 671.5 Return on average equity 27.9% 29.0% 2.9% Net cash provided by operating activities 468.3 331.8 284.0 Number of stockholders of record 2,886 2,904 2,929				
Current ratio 1.9 1.6 1.7 Property, plant and equipment – net 444.0 378.1 391.5 Capital expenditures 161.9 80.7 76.4 Depreciation and amortization 172.0 168.6 162.8 Total assets 2,423.6 2,430.8 2,580.5 Long-term debt, including current maturities 722.6 1,012.5 1,287.4 Stockholders' equity 1,056.2 854.9 671.5 Return on average equity 27.9% 29.0% 2.9% Net cash provided by operating activities 468.3 331.8 284.0 Number of stockholders of record 2,886 2,904 2,929				
Property, plant and equipment – net 444.0 378.1 391.5 Capital expenditures 161.9 80.7 76.4 Depreciation and amortization 172.0 168.6 162.8 Total assets 2,423.6 2,430.8 2,580.5 Long-term debt, including current maturities 722.6 1,012.5 1,287.4 Stockholders' equity 1,056.2 854.9 671.5 Return on average equity 27.9% 29.0% 2.9% Net cash provided by operating activities 468.3 331.8 284.0 Number of stockholders of record 2,886 2,904 2,929	• ·			
Capital expenditures 161.9 80.7 76.4 Depreciation and amortization 172.0 168.6 162.8 Total assets 2,423.6 2,430.8 2,580.5 Long-term debt, including current maturities 722.6 1,012.5 1,287.4 Stockholders' equity 1,056.2 854.9 671.5 Return on average equity 27.9% 29.0% 2.9% Net cash provided by operating activities 468.3 331.8 284.0 Number of stockholders of record 2,886 2,904 2,929				
Depreciation and amortization 172.0 168.6 162.8 Total assets 2,423.6 2,430.8 2,580.5 Long-term debt, including current maturities 722.6 1,012.5 1,287.4 Stockholders' equity 1,056.2 854.9 671.5 Return on average equity 27.9% 29.0% 2.9% Net cash provided by operating activities 468.3 331.8 284.0 Number of stockholders of record 2,886 2,904 2,929				
Total assets 2,423.6 2,430.8 2,580.5 Long-term debt, including current maturities 722.6 1,012.5 1,287.4 Stockholders' equity 1,056.2 854.9 671.5 Return on average equity 27.9% 29.0% 2.9% Net cash provided by operating activities 468.3 331.8 284.0 Number of stockholders of record 2,886 2,904 2,929		172.0	168.6	162.8
Long-term debt, including current maturities 722.6 1,012.5 1,287.4 Stockholders' equity 1,056.2 854.9 671.5 Return on average equity 27.9% 29.0% 2.9% Net cash provided by operating activities 468.3 331.8 284.0 Number of stockholders of record 2,886 2,904 2,929				
Stockholders' equity 1,056.2 854.9 671.5 Return on average equity 27.9% 29.0% 2.9% Net cash provided by operating activities 468.3 331.8 284.0 Number of stockholders of record 2,886 2,904 2,929	Long-term debt, including current maturities			
Return on average equity27.9%29.0%2.9%Net cash provided by operating activities468.3331.8284.0Number of stockholders of record2,8862,9042,929		1,056.2		
Net cash provided by operating activities468.3331.8284.0Number of stockholders of record2,8862,9042,929	- · · · · · · · · · · · · · · · · · · ·			2.9%
Number of stockholders of record 2,886 2,904 2,929				

1998	1997	1996	1995	1994	1993	1992
\$1,103.2	\$980.1	\$910.1	\$871.9	\$681.9	\$557.3	\$477.1
464.3	397.7	392.4	369.4	300.4	256.7	221.7
7.8	_	_	_	_	_	_
472.1	397.7	392.4	369.4	300.4	256.7	221.7
631.1	582.4	517.7	502.5	381.5	300.6	255.4
61.0	56.9	56.9	43.8	39.6	36.2	32.3
373.6	334.3	326.6	301.4	221.4	172.4	149.4
83.3	-	7.5	_	_	-	-
19.0	_	34.3	-	_	-	-
	-	(61.1)	-	_	-	
536.9	391.2	364.2	345.2	261.0	208.6	181.7
3.3	(4.1)	(12.6)	3.4	(2.7)	(4.1)	(3.2)
90.9	195.3	166.1	153.9	123.2	96.1	76.9
30.9	70.0	61.6	66.9	50.8	35.9	29.2
60.0	125.3	104.5	87.0	72.4	60.2	47.7
	-	-	-	-	-	
\$60.0	\$125.3	\$104.5	\$87.0	\$72.4	\$60.2	\$47.7
\$.31	\$.65	\$.54	\$.45	\$.37	\$.31	\$.25
\$.31	\$.64	\$.53	\$.44	\$.37	\$.31	\$.24
\$.06	\$.055	\$.05	\$.023	\$.02	\$.018	\$.015
192.6	192.5	193.7	193.9	193.5	193.4	190.9
196.3	196.3	196.9	197.1	196.1	195.7	195.6
1998	1997	1996	1995	1994	1993	1992
138.6	351.1	367.6	264.6	202.0	152.6	91.8
666.2	433.7	501.8	448.8	361.3	214.0	168.2
2.0	2.4	3.0	3.6	3.0	2.6	2.7
429.5	163.9	172.3	182.6	180.7	67.7	59.6
51.3	35.2	26.7	36.3	29.2	20.2	31.6
53.2	49.5	34.7	28.7	20.9	16.2	11.4
2,875.4	985.1	993.5	854.9	768.0	454.2	340.3
1,503.0	78.1	93.9	100.0	100.6	32.2	2.6
672.6	612.8	530.4	454.3	358.3	288.4	232.3
9.3%	21.9%	21.2%	21.4%	22.4%	23.1%	23.1%
154.5	91.9	204.3	111.5	97.7	86.1	50.7
3,061	3,127	3,306	3,260	3,684	3,951	3,512
10,974	5,691	5,274	4,629	4,221	3,228	2,906

Management's Discussion and Analysis of Financial Condition and Results of Operations

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	
	2001	2000	1999	2001/00	2000/99
Net sales	100.0%	100.0%	100.0%	14%	9%
Cost of sales:					
Before inventory step-up	37.0	35.6	37.6	18	3
Inventory step-up		-	9.4	-	-
Total cost of sales	37.0	35.6	47.0	18	(18)
Gross profit	63.0	64.4	53.0	11	32
Research, development and engineering expenses	5.5	5.3	5.0	16	16
Selling, general and administrative expenses	37.9	38.7	38.4	11	10
Acquisition-related and restructuring charges (credits)	_	-	0.9	-	-
Other expense (income)	4.0	5.8	7.2	(21)	(13)
Earnings before income taxes and extraordinary item	15.6	14.6	1.4	21	-
Income taxes	5.1	5.0	0.5	18	-
Earnings before extraordinary item	10.4	9.7	0.9	23	_
Extraordinary loss, net of income taxes	(0.2)	-		-	-
Net earnings	10.3%	9.7%	0.9%	21	-

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

	N	Net Sales (in millions)			Percentage Change	
	2001	2000	1999	2001/00	2000/99	
Domestic/international sales						
Domestic	\$1,688.4	\$1,408.2	\$1,228.4	20%	15%	
International	913.9	881.2	875.3	4	1	
Total net sales	\$2,602.3	\$2,289.4	\$2,103.7	14	9	
Product line sales						
Orthopaedic Implants	\$1,442.5	\$1,313.0	\$1,248.2	10	5	
MedSurg Equipment	978.9	829.1	733.5	18	13	
Physical Therapy Services	180.9	147.3	122.0	23	21	
Total net sales	\$2,602.3	\$2,289.4	\$2,103.7	14	9	

2001 Compared with 2000

Stryker Corporation's net sales increased 14% in 2001 to \$2,602.3 million from \$2,289.4 million in 2000. Net sales grew by 12% as a result of increased unit volume and changes in product mix; 3% related to higher selling prices; 1% as a result of acquired businesses; and 1% related to the inclusion of freight revenue in net sales in 2001. Freight revenue was recorded as an offset to cost of sales during 2000. These increases were partially offset by a 3% decline due to changes in foreign currency exchange rates.

The Company's domestic sales increased 20% in 2001 to \$1,688.4 million from \$1,408.2 million in 2000. The domestic sales gain is a result of higher shipments of Orthopaedic Implants, MedSurg Equipment and higher revenue from Physical Therapy Services. International sales increased 4% for the year to \$913.9 million from \$881.2 million in 2000 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 \$62.1 million for the year. Excluding the impact of foreign currency, international sales increased 11% in 2001.

Worldwide sales of Orthopaedic Implants were \$1,442.5 million for 2001, representing an increase of 10% 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 13% in 2001. Worldwide sales of MedSurg Equipment were \$978.9 million for 2001, representing an increase of 18% 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, sales of MedSurg Equipment increased 20% in 2001. Physical Therapy Services revenues were \$180.9 million for 2001, representing an increase of 23% as a result of new physical therapy centers and higher revenue from existing centers.

Cost of sales represented 37.0% of sales compared with 35.6% in 2000. The higher cost of sales percentage in 2001 resulted primarily from the change in recording of freight revenue described above and the classification of certain shipping costs as cost of sales in 2001 that had been reported in selling, general and administrative expenses in the prior year. The cost of sales percentage increased approximately 1.0% in 2001 as a result of the change in classification of freight revenue and shipping costs. Cost of sales for 2001 were also higher by approximately 0.4% due to an increase in unabsorbed manufacturing costs caused by the slowing of production in certain of the Company's manufacturing plants to reduce overall inventory levels. The Company continually assesses the overall capacity provided by its manufacturing plants relative to cost, inventory management and expected sales growth. A slight increase in Orthopaedic Implant margins was more than offset by higher sales and revenues of lower-margin MedSurg Equipment products and Physical Therapy Services.

Research, development and engineering expenses increased 16% in 2001 and represented 5.5% of sales compared with 5.3% in 2000. The increase in research, development and engineering spending in 2001 resulted from continued Company-wide focus on new product development. New product introductions in 2001 included the Accolade Cemented Hip Stem, EIUS knee, T2 Intramedullary Nail System, Reflex Anterior Cervical Plate, Percutaneous Cement Delivery System, Elite Attachments for TPS, Cordless Driver II, Stryker Knee Navigation System, SDC Pro II surgical documentation system, 988 Digital Camera, Go Bed, Trio Mobile Surgery Platform and an enhanced Secure II bed. In the second quarter of 2001, the Company received marketing approval for its OP-1 Implant product in Australia and the European Union. The approved indication in Australia is for the treatment of nonunion of long bone fractures secondary to trauma for the purposes of initiating repair by new bone formation. The approved indication in Europe is for tibial nonunions of nine-month duration, secondary to trauma, in skeletally mature patients, in cases where previous treatment with autograft has failed or use of autograft is unfeasible. In the fourth quarter of 2001, the Company was granted Humanitarian Device Exemption (HDE) status for OP-1 Implant by the U.S. Food and Drug Administration (FDA). The approved indication in the U.S. is for use as an alternative to autograft in recalcitrant long bone nonunions where use of autograft is unfeasible and alternative treatments have failed. Under the HDE, OP-1 Implant will be made available as a humanitarian device, defined by the FDA as one intended to benefit patients by treating or diagnosing a disease or condition that affects fewer than 4,000 individuals per year in the U.S. The first commercial sales of OP-1 in Australia began in mid-May and the commercial launch of OP-1 in select markets of the European Union began in August. The first sales of OP-1 in the U.S. under the HDE began in November. The commercial launch of OP-1 did not have a significant impact on sales in 2001 and the Company cannot predict the impact on sales in future years.

Selling, general and administrative expenses increased 11% in 2001 and represented 37.9% of sales compared with 38.7% in 2000. The classification of certain shipping costs as cost of sales in 2001 reduced selling, general and administrative expenses as a percent of sales by approximately 0.4% in 2001. In addition, discount expense related to the accounts receivable securitization program, which is included in selling, general and administrative expenses, declined to \$5.8 million in 2001 from \$7.1 million in 2000 as a result of lower discount rates.

The Company recognized nonrecurring charges of \$0.6 million in continuing operations relating to various acquisitionrelated and restructuring events in the fourth quarter of 2001 and recognized nonrecurring acquisition-related and restructuring credits of \$1.0 million in 2000. The 2001 acquisition-related and restructuring charges include \$2.4 million of charges, partially offset by the reversal of prior year restructuring accruals totaling \$1.8 million. The \$2.4 million in 2001 charges includes a \$0.9 million acquisition-related charge for severance and related costs associated with the reorganization of the Company's sales structure in Italy to accommodate the integration of the business acquired from the Company's independent Italian distributor. The reorganization established a direct sales force in Italy that will distribute the Company's full product portfolio. The \$0.9 million charge covers severance costs for three employees in Italy and costs to cancel contracts with discontinued agents. The reorganization of the sales structure in Italy is expected to be completed in the first quarter of 2002. The 2001 charge also includes a \$0.7 million charge related to the reorganization of the Company's distribution channels in Latin America and \$0.8 million for severance costs for 10 employees in Europe. The \$0.7 million charge reflects the cost to terminate a distributor and is based on contractual terms. Planned European workforce reductions are expected to be completed in the first quarter of 2002. The \$1.8 million in credits includes \$1.4 million related to a reduction in the expected costs to complete headcount reductions associated with the 2000 and 1999 reorganizations of the Company's European and Japanese distribution operations. The 2001 credits also include \$0.4 million to reverse the remaining loss reserves established in Japan for discontinued ophthalmology inventories sold on a contingent basis in 1999.

In 2000, the Company recognized nonrecurring credits of \$1.0 million consisting of the reversal of prior year restructuring accruals totaling \$7.0 million, partially offset by charges totaling \$6.0 million. The \$7.0 million in credits included \$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 included \$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 in Japan for discontinued ophthalmology inventories sold on a contingent basis in 1999. The \$6.0 million in 2000 restructuring charges included a \$4.0 million charge to cover severance costs for 95 employees, primarily in Europe; and \$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 planned workforce reductions were completed in 2001, and the remaining amount of the reserve was reversed in 2001. The 2000 restructuring charges also included \$0.6 million to terminate two small European distributors.

Interest expense declined to \$67.9 million in 2001 from \$96.6 million in 2000, primarily as a result of lower outstanding debt balances. The increase in intangibles amortization to \$38.4 million in 2001 from \$34.7 million in 2000 relates primarily to business acquisitions during 2001 and the last half of 2000. Other income increased to \$1.6 million in 2001 from other expense of \$1.2 million in 2000, primarily as a result of foreign currency transaction gains in 2001 versus foreign currency transaction losses in 2000, partially offset by lower interest income. The effective income tax rate for 2001 was 33.0% compared with a 34.0% effective income tax rate in 2000. The decrease in the rate from 2000 to 2001 is attributable to the mix of operating results among the tax jurisdictions.

Earnings before extraordinary item increased 23% to \$271.8 million from \$221.0 million in 2000; basic earnings per share before extraordinary item increased 22% to \$1.38 in 2001 from \$1.13 in 2000; and diluted earnings per share before extraordinary item increased 22% to \$1.34 in 2001 from \$1.10 in 2000. In December 2001, the Company refinanced and prepaid the remaining \$642.7 million outstanding under the \$1,650.0 million Senior Secured Credit Facilities established in 1998 in connection with the Howmedica acquisition. The prepayment of the 1998 Facilities resulted in the write-off of related unamortized deferred loan costs of \$7.1 million, which has been reflected as an extraordinary loss of \$4.8 million (net of income taxes of \$2.3 million; \$.02 per basic and diluted share). Net earnings were \$267.0 million (basic and diluted net earnings per share of \$1.36 and \$1.32, respectively) compared with \$221.0 million (basic and diluted net earnings per share of \$1.13 and \$1.10, respectively) in 2000.

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 and changes in product mix; 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, MedSurg Equipment and 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 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, partially 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 substantially 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 income tax rate for 2000 was 34.0% compared with a 34.9% effective income 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.

Liquidity and Capital Resources

The Company's working capital at December 31, 2001 increased \$80.1 million to \$459.7 million from \$379.6 million at December 31, 2000. The working capital increase is due primarily to the reduction in current maturities of long-term debt of \$134.3 million, partially offset by increases in income tax liabilities and accrued expenses. The reduction in current maturities of long-term debt is due to the establishment of a new revolving credit facility (as described in more detail below) in December 2001, which does not require principal repayments in 2002. Accounts receivable days sales outstanding, excluding the effect of the securitization program, decreased 10 days to 59 days at the end of 2001 from 69 days at December 31, 2000. The lower days sales outstanding at December 31, 2001 is the result of improved collection efforts as well as an increase in the allowance for bad debts to provide for potential exposures in Latin America and Europe. Days sales in inventory decreased to 138 days at December 31, 2001 from 166 days at December 31, 2000. The lower days sales in inventory at December 31, 2001 is primarily the result of improved inventory management.

The Company generated cash of \$468.3 million from operations in 2001 compared with \$331.8 million in 2000. The generation of cash in 2001 is the result of strong cash earnings (net earnings plus noncash adjustments) and increases in accrued expenses, income tax liabilities and accounts payable. These increases were partially offset by increases in accounts receivable, inventories and deferred charges and payments of \$11.2 million attributable to acquisition-related and restructuring charges and acquisition purchase liabilities. In 2001, the Company used cash of \$161.9 million for capital expenditures, \$43.0 million for business acquisitions and \$15.7 million for the payment of dividends. Capital expenditures included \$87.8 million to terminate a synthetic lease and purchase the Company's Mahwah, New Jersey, manufacturing and distribution facility. Business acquisitions include \$27.2 million paid to Pfizer Inc., for final settlement of a working capital adjustment relating to the Howmedica purchase price.

In December 2001, the Company established \$1,000.0 million in Unsecured Credit Facilities. These Facilities replaced the \$1,650.0 million Senior Secured Credit Facilities that were established in 1998 in conjunction with the acquisition of Howmedica. The Unsecured Credit Facilities include a \$250.0 million 364-day revolving credit agreement and a \$750.0 million five-year, nonamortizing, revolving credit agreement. A total of \$730.5 million was drawn under the new Credit Facilities, of which \$642.7 million prepaid the debt outstanding under the 1998 Facilities and \$87.8 million was used to terminate the

Company's synthetic lease and purchase its Mahwah, New Jersey, manufacturing and distribution facility. In addition to the refinancing, the Company borrowed \$205.3 million under credit facilities to fund cash flow needs at various times during 2001 and made repayments of \$568.7 million against credit facilities during 2001. Total debt declined by \$289.9 million during 2001.

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 that in turn may sell up to a \$130.0 million 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 \$2.7 million of proceeds during 2001, with the program-to-date proceeds totaling \$130.0 million as of December 31, 2001. The proceeds have been used to reduce the Company's long-term debt.

The Company had \$50.1 million in cash and cash equivalents at December 31, 2001. The Company also had outstanding borrowings totaling \$722.6 million at that date. Current maturities of long-term debt at December 31, 2001 are \$1.7 million and will decrease to \$0.2 million in 2003 and \$0.1 million in 2004. The Company's \$250.0 million 364-day revolving credit agreement expires in December 2002 and is renewable at the Company's and the lenders' discretion. The Company's \$750.0 million five-year, nonamortizing, revolving credit agreement expires in December 2006. 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 and required debt repayments. Should additional funds be required, the Company had \$346.2 million of additional borrowing capacity available under all of its existing credit facilities at December 31, 2001.

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. The additional purchase liabilities recorded in connection with the acquisition of Howmedica totaled \$126.5 million. At December 31, 2001, there were \$4.1 million in additional purchase liabilities remaining to be paid out. Certain obligations, such as those related to lease commitments for facility closures, will result in payments extending to 2008.

The Company distributes its products throughout the world. As a result, the Company's financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. The Company's operating results are 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. When the U.S. dollar weakens, the opposite situation occurs. The Company manufactures its products in the United States, France, Germany, Ireland, Switzerland, Canada and Puerto Rico and incurs the costs to manufacture in the applicable local currencies. This worldwide deployment of factories serves to partially mitigate the impact of currency exchange rate changes on the Company's cost of sales.

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

At December 31, 2001, the Company had outstanding forward currency exchange contracts to purchase \$97.4 million and sell \$72.1 million of various currencies (principally U.S. dollars and euros) with maturities principally ranging from 30 to 180 days. At December 31, 2000, the Company had outstanding forward currency exchange contracts to purchase \$82.7 million and sell \$33.8 million of various currencies (principally U.S. dollars and euros) with maturities ranging from 30 to 180 days. The estimated fair value of forward currency exchange contracts represents the measurement of the contracts at month-end spot rates as adjusted for amortized forward points. A hypothetical 10% change in exchange rates for these currencies would change the 2001 fair value by approximately \$1.4 million and would have changed the 2000 fair value by approximately \$1.6 million.

The Company's exposure to market risk for changes in interest rates relates to its borrowings and the accounts receivable securitization facility. The Company manages the interest rate risk on its borrowings through interest rate swap agreements, which have fixed the base rate on a \$550.0 million notional amount of the \$717.2 million of variable-rate borrowings outstanding at December 31, 2001. If market interest rates for similar borrowings had averaged 1% more than they did in 2001, the Company's 2001 interest expense, after considering the effects of its interest rate swaps, would have increased, and earnings before income taxes and extraordinary item would have decreased by \$2.8 million. By comparison, if market interest rates had averaged 1% less than they did during 2001, the Company's 2001 interest expense, after considering the effects of its interest rate swaps, would have decreased, and earnings before income taxes and extraordinary item would have increased by \$2.8 million. If market interest rates for the accounts receivable securitization facility had averaged 1% more than they did in 2001, the Company's discount expense would have increased, and earnings before income taxes and extraordinary item would have decreased by \$1.3 million. By comparison, if market interest rates had averaged 1% less than they did in 2001, the Company's discount expense would have decreased, and earnings before income taxes and extraordinary item would have increased by \$1.3 million. These amounts are determined by considering the impact of hypothetical interest rates on the Company's borrowing cost, interest rate swap agreements and accounts receivable securitization facility without any actions by management to mitigate its exposure to such changes.

The Company is exposed to credit loss in the event of nonperformance by counterparties on the above instruments, but does not anticipate nonperformance by any of the counterparties.

As of January 1, 2001, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statements No. 137 and No. 138. 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 Company's interest rate swap agreements effectively convert a portion of its variable-rate borrowings to a fixed-rate basis through 2003, thus reducing the impact of changes in interest rates on future interest expense. Approximately 77% of the Company's outstanding variable-rate borrowings as of December 31, 2001 have been hedged through the designation of interest rate swap agreements classified as cash flow hedges. Upon adoption of the Statements on January 1, 2001, the Company recognized a gain from the cumulative effect of an accounting change of \$3.5 million in accumulated other comprehensive gain (loss) related to the interest rate swap agreements. A loss of \$22.0 million attributable to a decrease in the fair value of interest rate swap agreements was recorded as a component of accumulated other comprehensive gain (loss) in 2001. If in the future the interest rate swap agreements were determined to be ineffective, or were terminated before the contractual termination dates, or if it became probable that the hedged variable cash flows associated with the variable-rate borrowings would stop, the Company would be required to reclassify into earnings all or a portion of the unrealized gains (losses) on cash flow hedges included in accumulated other comprehensive gain (loss). Interest rate differentials to be paid or received as a result of interest rate swaps are recognized as an adjustment of interest expense related to the designated borrowings. Based on the maturities of the Company's interest rate swap agreements, interest expense for the year ending December 31, 2002 is expected to increase by \$8.2 million through the recognition of amounts included as unrealized losses on cash flow hedges at December 31, 2001.

The Company uses yen-denominated floating-rate borrowings to protect a portion of the value of its investment in its subsidiary in Japan. Realized and unrealized gains and losses from this hedge are not included in the Consolidated Statements of Earnings, but are recorded as foreign currency translation adjustments within accumulated other comprehensive gain (loss) in stockholders' equity. Net gains (losses) of \$5.8 million, \$7.7 million and (\$7.4) million attributable to the yen-denominated floating-rate borrowings hedge were recorded as foreign currency translation adjustments in 2001, 2000 and 1999, respectively.

In June 2001, the FASB issued Statement No. 141, *Business Combinations* and Statement No. 142, *Goodwill and Other Intangible Assets.* Statement No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement No. 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives and requires the Company to evaluate these intangibles for impairment on an annual basis. It is effective for business combinations completed after June 30, 2001. The Company began applying the provisions of Statement No. 142 to acquisitions completed subsequent to June 30, 2001. The goodwill recorded as a result of those acquisitions is not being amortized. For goodwill and intangible assets arising from business combinations completed before July 1, 2001, the Company is required to apply the provisions of Statement No. 142 beginning on January 1, 2002. In accordance with the Statement provisions, an assembled workforce intangible asset with an unamortized balance of \$5.5 million will be reclassified from other intangibles to goodwill at that date. Application of the nonamortization provisions of the Statement in the year ending December 31, 2002 is expected to reduce intangibles amortization by approximately \$16 million and increase net earnings by approximately \$11 million (\$.05 per diluted share).

In the first quarter of 2002, the Company will perform the initial impairment tests of goodwill and indefinite-lived intangible assets as of January 1, 2002. The Company will test for impairment using the two-step process prescribed in Statement No. 142. The first step is a screen for potential impairment. The second step, if necessary, measures the amount of the impairment. Any impairment charge resulting from these initial impairment tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of 2002. The Company has not yet determined what effect the tests will have on its consolidated results of operations or financial position. The Company will perform a subsequent impairment test in the fourth quarter of 2002 and then at least annually thereafter.

As discussed in Liquidity and Capital Resources, the Company established \$1,000.0 million in Unsecured Credit Facilities in December 2001. These Facilities replaced the \$1,650.0 million Secured Senior Credit Facilities that were established in 1998 in conjunction with the acquisition of Howmedica. Interest expense for 2002 is expected to be reduced by approximately \$9 million as a result of the refinancing.

As a result of changed conditions in the insurance industry, including less favorable experience factors within the orthopaedic industry, the Company's cost for insurance coverage will increase substantially in 2002. The increase in insurance premiums will offset the \$9 million in interest expense savings from the December 2001 debt refinancing.

Forward-Looking Statements

The information contained in this report may contain information that includes or is based on forward-looking statements within the meaning of the federal securities laws that are subject to risks and uncertainties. These statements may be identified by the use of words such as "anticipates," "expects," "estimates," "projects," "intends" and "believes" and variations thereof and other terms of similar meaning. 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: regulatory actions, including cost-containment measures, that could adversely affect the price of or demand for the Company's products; changes in reimbursement levels from third-party payors; a significant increase in product liability claims; changes in economic conditions that adversely affect the level of demand for the Company's products; changes in foreign exchange markets; changes in financial markets; and changes in the competitive environment.

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

Consolidated Balance Sheets Stryker Corporation and Subsidiaries

(in millions, except per share amounts)

Inventories 399.8 392.1 Deferred income taxes 171.5 168.7 Prepaid expenses and other current assets 39.6 38.5 Total current assets 993.1 997.0 Property, Plant and Equipment Land, buildings and improvements 287.6 211.9 Machinery and equipment 469.3 444.0 Less allowance for depreciation 312.9 277.8 Less allowance for depreciation 312.9 277.8 Other Assets 30.0 368.0 368.7 Other Intangibles, less accumulated amortization of \$58.5 (\$40.3 in 2000) 434.3 470.6 Other intangibles, less accumulated amortization of \$74.5 (\$53.2 in 2000) 368.0 368.7 Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.3 Deferred income taxes 60.4 84.0 Other 28.6 10.55.7 12.6 2.423.6 28.75.0 2.423.6 2.823.6 2.823.6 Other 2.6 2.423.6 2.823.6 <td< th=""><th></th><th>Decem</th><th>ber 31</th></td<>		Decem	ber 31
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Accounts receivable, less allowance of \$36.3 (\$28.8 in 2000) 332.1 343.7 Inventories 399.8 392.1 Deferred income taxes 171.5 168.7 Prepaid expenses and other current assets 39.0 38.5 Total current assets 993.1 997.0 Property, Plant and Equipment 287.6 211.9 Land, buildings and improvements 287.6 211.9 Machinery and equipment 469.3 344.0 Machinery and equipment 440.3 341.0 Less allowance for depreciation 37.0 655.9 Colver Assets 444.0 378.1 Goodwill, less accumulated amortization of \$74.5 (\$53.2 in 2000) 434.3 470.6 Other Intagibles, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.3 Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.3 Other 480.0 484.0 484.0 Other 481.0 484.0 484.0 Other 481.0 484.0 484.0 Other	Current Assets		
Deferred income taxes	Cash and cash equivalents	\$50.1	\$54.0
Deferred income taxes 171.5 168.7 Prepaid expenses and other current assets 39.6 38.5 Total current assets 99.1 99.7 Property, Plant and Equipment 287.6 211.9 Machinery and equipment 469.3 444.0 Machinery and equipment 312.9 277.8 Less allowance for depreciation 312.9 277.8 Cheer Assets 444.0 378.1 Codwill, less accumulated amortization of \$58.5 (\$40.3 in 2000) 444.3 470.6 Other Intangibles, less accumulated amortization of \$74.5 (\$53.2 in 2000) 368.0 368.7 Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.3 Deferred income taxes 60.4 440.0 Other 21.7 33.1 98.5 1,055.7 243.6 254.93.6 Liabilities 31.0 25.1 35.2 Accounts payable \$10.5 56.2 45.1 36.6 Accounts payable \$10.5 56.2 50.5 56.8 15.1	Accounts receivable, less allowance of \$36.3 (\$28.8 in 2000)	332.1	343.7
Prepaid expenses and other current assets 39.6 38.5 Total current assets 993.1 997.0 Property: Plant and Equipment 287.6 211.9 Machinery and equipment 469.3 444.0 Machinery and equipment 469.3 444.0 Less allowance for depreciation 376.9 655.9 Less allowance for depreciation 440.0 378.1 Other Assets 440.0 378.1 Chiller Assets 434.3 470.6 Other Intangibles, less accumulated amortization of \$74.5 (\$53.2 in 2000) 434.3 470.6 Other Intangibles, less accumulated amortization of \$74.5 (\$53.2 in 2000) 102.1 99.3 Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.6 Other Intangibles, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.3 Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.6 Other Lasset 21.7 33.1 Accurrent Liabilities \$10.5 \$1.0 Accurrent Liabilities 9.5 56.8 <td>Inventories</td> <td>399.8</td> <td>392.1</td>	Inventories	399.8	392.1
Property, Plant and Equipment 287.6 211.9 Acade Special Equipment 249.3 244.0 756.9 655.9 247.8	Deferred income taxes	171.5	168.7
Property, Plant and Equipment 287.6 211.9 Machinery and equipment 469.3 444.0 756.9 655.9 Less allowance for depreciation 312.9 277.8 228.8 227.8	Prepaid expenses and other current assets	39.6	38.5
Land, buildings and improvements 287.6 211.9 Machinery and equipment 469.3 444.0 Less allowance for depreciation 312.9 277.8 Chess allowance for depreciation 444.0 378.1 Other Assets 444.0 378.1 Goodwill, less accumulated amortization of \$58.5 (\$40.3 in 2000) 434.3 470.6 Other intangibles, less accumulated amortization of \$74.5 (\$53.2 in 2000) 368.0 368.7 Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.3 Deferred income taxes 60.4 84.0 Other 21.7 33.1 Year of the stream	Total current assets	993.1	997.0
Land, buildings and improvements 287.6 211.9 Machinery and equipment 469.3 444.0 Less allowance for depreciation 312.9 277.8 Chess allowance for depreciation 444.0 378.1 Other Assets 444.0 378.1 Goodwill, less accumulated amortization of \$58.5 (\$40.3 in 2000) 434.3 470.6 Other intangibles, less accumulated amortization of \$74.5 (\$53.2 in 2000) 368.0 368.7 Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.3 Deferred income taxes 60.4 84.0 Other 21.7 33.1 Year of the stream			
Machinery and equipment 469.3 444.0 Content Assets 312.9 277.8 Cother Assets 440.0 378.1 Cother Intangibles, less accumulated amortization of \$58.5 (\$40.3 in 2000) 434.3 470.6 Other Intangibles, less accumulated amortization of \$74.5 (\$53.2 in 2000) 368.0 368.7 Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.3 Deferred income taxes 60.4 84.0 Other 21.7 33.1 10 cerrent line income taxes 60.4 84.0 Other 21.7 33.1 21 cerrent line income taxes 21.0 25.0 Counts payable 50.5 5.430.8 Accounts payable 510.5 51.5 Accumed compensation 128.5 115.2 Acquisition-related reorganization reserves and liabilities 9.5 56.8 Income taxes 75.1 33.6 Accrued expenses and other liabilities 210.1 181.7 Current maturities of long-term debt 1.7 136.0	Property, Plant and Equipment		
Less allowance for depreciation 756.9 655.9 Less allowance for depreciation 312.9 277.8 Other Assets 444.0 378.1 Goodwill, less accumulated amortization of \$58.5 (\$40.3 in 2000) 434.3 470.6 Other intangibles, less accumulated amortization of \$74.5 (\$53.2 in 2000) 368.0 368.7 Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.3 Deferred income taxes 60.4 84.0 Other 21.7 33.1 Other 21.7 33.1 Expected income taxes 21.05.7 32.4 Liabilities and Stockholders' Equity 8.10.5 \$94.1 Accounts payable \$108.5 \$94.1 Accounts payable \$108.5 \$94.1 Accounts payable \$108.5 \$15.2 Accounts payable \$10.5 \$1.5 Accounts payable \$1.5 \$1.5 Accounts payable \$1.5 \$1.5 Accumet compensation \$1.5 \$1.5 Income taxes \$1.5 <	Land, buildings and improvements	287.6	211.9
Less allowance for depreciation 312.9 277.8 Other Assets 444.0 378.1 Goodwill, less accumulated amortization of \$58.5 (\$40.3 in 2000) 434.3 470.6 Other intangibles, less accumulated amortization of \$74.5 (\$53.2 in 2000) 368.0 368.7 Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.3 Deferred income taxes 60.4 84.0 Other 21.7 33.1 P86.5 1,055.7 \$242.0 \$2.403.0 United income taxes \$10.55.7 \$2.403.0 \$2.403.0 Current Liabilities \$10.85.5 \$94.1 \$98.5 \$1.055.7 Accounts payable \$10.85.5 \$94.1 \$94.5 \$1.52.5 \$1.52.5 Accrued compensation \$12.5 \$15.2 \$1.52.5 \$1.	Machinery and equipment		
444.0 378.1 Other Assets Goodwill, less accumulated amortization of \$58.5 (\$40.3 in 2000) 434.3 470.6 Other intangibles, less accumulated amortization of \$74.5 (\$53.2 in 2000) 368.0 368.7 Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.3 Deferred income taxes 60.4 84.0 Other 21.7 33.1 986.5 1,055.7 \$2,43.6 \$2,430.8 Liabilities and Stockholders' Equity Current Liabilities \$108.5 \$94.1 Accounts payable \$108.5 \$94.1 Accrued compensation 128.5 115.2 Acquisition-related reorganization reserves and liabilities 9.5 56.8 Income taxes 75.1 33.6 Accrued expenses and other liabilities 210.1 181.7 Current maturities of long-term debt 1.7 136.0 Total current liabilities 53.4 617.4 Atong-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabil		756.9	655.9
Other Assets 434.3 470.6 Other intangibles, less accumulated amortization of \$74.5 (\$53.2 in 2000) 368.0 368.7 Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.3 Deferred income taxes 60.4 84.0 Other 21.7 33.1 Expected income taxes 21.7 33.1 Other 986.5 1,055.7 S2,423.6 \$2,430.8 Liabilities and Stockholders' Equity 8108.5 \$94.1 Accounts payable \$108.5 \$94.1 Accrued compensation 128.5 115.2 Acquisition-related reorganization reserves and liabilities 9.5 56.8 Income taxes 75.1 33.6 Accrued expenses and other liabilities 210.1 181.7 Current maturities of long-term debt 1.7 136.0 Total current liabilities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity	Less allowance for depreciation	312.9	277.8
Goodwill, less accumulated amortization of \$58.5 (\$40.3 in 2000) 434.3 470.6 Other intangibles, less accumulated amortization of \$74.5 (\$53.2 in 2000) 368.0 368.7 Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.3 Deferred income taxes 60.4 84.0 Other 21.7 33.1 986.5 1,055.7 \$2,430.6 \$2,430.6 \$2,430.8 Liabilities and Stockholders' Equity Current Liabilities Accounts payable \$108.5 \$94.1 Accqued compensation 128.5 115.2 Acqueixition-related reorganization reserves and liabilities 9.5 56.8 Income taxes 75.1 33.6 Accrued expenses and other liabilities 210.1 181.7 Current maturities of long-term debt 1.7 136.0 Total current liabilities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity		444.0	378.1
Other intangibles, less accumulated amortization of \$74.5 (\$53.2 in 2000) 368.0 368.7 Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.3 Deferred income taxes 60.4 84.0 Other 21.7 33.1 986.5 1,055.7 \$2,430.6 \$2,430.8 Liabilities and Stockholders' Equity Current Liabilities Accounts payable \$108.5 \$94.1 Accrued compensation 128.5 115.2 Acquisition-related reorganization reserves and liabilities 9.5 56.8 Income taxes 75.1 33.6 Accrued expenses and other liabilities 210.1 181.7 Current maturities of long-term debt 1.7 136.0 Total current liabilities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares	Other Assets		
Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000) 102.1 99.3 Deferred income taxes 60.4 84.0 Other 21.7 33.1 986.5 1,055.7 \$2,423.6 \$2,430.8 Liabilities and Stockholders' Equity Current Liabilities Accounts payable \$108.5 \$94.1 Accrued compensation 128.5 115.2 Acquisition-related reorganization reserves and liabilities 9.5 56.8 Income taxes 75.1 33.6 Accrued expenses and other liabilities 210.1 181.7 Current maturities of long-term debt 1.7 136.0 Total current liabilities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares	Goodwill, less accumulated amortization of \$58.5 (\$40.3 in 2000)	434.3	470.6
Deferred income taxes 60.4 84.0 Other 21.7 33.1 986.5 1,055.7 \$2,43.6 \$2,430.8 Liabilities and Stockholders' Equity Current Liabilities Accounts payable \$108.5 \$94.1 Accrued compensation 128.5 115.2 Acquisition-related reorganization reserves and liabilities 9.5 56.8 Income taxes 75.1 33.6 Accrued expenses and other liabilities 210.1 181.7 Current maturities of long-term debt 1.7 136.0 Total current liabilities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity 2 2 Common stock, S.10 par value: 4 4 Authorized—500.0 shares 4 4	Other intangibles, less accumulated amortization of \$74.5 (\$53.2 in 2000)	368.0	368.7
Other 21.7 33.1 986.5 1,055.7 \$2,423.6 \$2,430.8 Liabilities and Stockholders' Equity Current Liabilities Accounts payable \$108.5 \$94.1 Accrued compensation 128.5 115.2 Acquisition-related reorganization reserves and liabilities 9.5 56.8 Income taxes 75.1 33.6 Accrued expenses and other liabilities 210.1 181.7 Current maturities of long-term debt 1.7 136.0 Total current liabilities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Common stock, \$.10 par value: Common stock, \$.10 par value:	Deferred charges, less accumulated amortization of \$205.5 (\$154.1 in 2000)	102.1	99.3
Liabilities and Stockholders' Equity S2,423.6 \$2,430.8 Liabilities and Stockholders' Equity Current Liabilities Accounts payable \$108.5 \$94.1 Accrued compensation 128.5 115.2 Acquisition-related reorganization reserves and liabilities 9.5 56.8 Income taxes 75.1 33.6 Accrued expenses and other liabilities 210.1 181.7 Current maturities of long-term debt 1.7 136.0 Total current liabilities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares	Deferred income taxes	60.4	84.0
\$2,423.6 \$2,423.6 \$2,430.8 Liabilities and Stockholders' Equity Current Liabilities Accounts payable \$108.5 \$94.1 Accrued compensation 128.5 115.2 Acquisition-related reorganization reserves and liabilities 9.5 56.8 Income taxes 75.1 33.6 Accrued expenses and other liabilities 210.1 181.7 Current maturities of long-term debt 1.7 136.0 Total current liabilities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares	Other	21.7	33.1
Liabilities and Stockholders' Equity Current Liabilities Accounts payable \$108.5 \$94.1 Accrued compensation 128.5 115.2 Acquisition-related reorganization reserves and liabilities 9.5 56.8 Income taxes 75.1 33.6 Accrued expenses and other liabilities 210.1 181.7 Current maturities of long-term debt 1.7 136.0 Total current liabilities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 530.0 113.1 82.0 Stockholders' Equity Common stock, S.10 par value: Authorized—500.0 shares		986.5	1,055.7
Current Liabilities \$108.5 \$94.1 Accounts payable \$108.5 \$94.1 Accrued compensation 128.5 115.2 Acquisition-related reorganization reserves and liabilities 9.5 56.8 Income taxes 75.1 33.6 Accrued expenses and other liabilities 210.1 181.7 Current maturities of long-term debt 1.7 136.0 Total current liabilities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares		\$2,423.6	\$2,430.8
Accounts payable \$108.5 \$94.1 Accrued compensation 128.5 115.2 Acquisition-related reorganization reserves and liabilities 9.5 56.8 Income taxes 75.1 33.6 Accrued expenses and other liabilities 210.1 181.7 Current maturities of long-term debt 1.7 136.0 Total current liabilities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares			
Accrued compensation 128.5 115.2 Acquisition-related reorganization reserves and liabilities 9.5 56.8 Income taxes 75.1 33.6 Accrued expenses and other liabilities 210.1 181.7 Current maturities of long-term debt 1.7 136.0 Total current liabilities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares	Current Liabilities		
Acquisition-related reorganization reserves and liabilities Income taxes 75.1 33.6 Accrued expenses and other liabilities 210.1 181.7 Current maturities of long-term debt 1.7 136.0 Total current liabilities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares	Accounts payable	\$108.5	\$94.1
Income taxes Accrued expenses and other liabilities Current maturities of long-term debt Total current liabilities Long-Term Debt, Excluding Current Maturities Other Liabilities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares	Accrued compensation	128.5	115.2
Accrued expenses and other liabilities Current maturities of long-term debt Total current liabilities Long-Term Debt, Excluding Current Maturities Other Liabilities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares	Acquisition-related reorganization reserves and liabilities	9.5	56.8
Current maturities of long-term debt Total current liabilities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares	Income taxes	75.1	33.6
Total current liabilities 533.4 617.4 Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares	Accrued expenses and other liabilities	210.1	181.7
Long-Term Debt, Excluding Current Maturities 720.9 876.5 Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares	Current maturities of long-term debt	1.7	136.0
Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares	Total current liabilities	533.4	617.4
Other Liabilities 113.1 82.0 Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares			
Stockholders' Equity Common stock, \$.10 par value: Authorized—500.0 shares		720.9	
Common stock, \$.10 par value: Authorized—500.0 shares	Other Liabilities	113.1	82.0
Authorized—500.0 shares	Stockholders' Equity		
	Common stock, \$.10 par value:		
Outstanding—196.7 shares (195.9 in 2000) 19.7 19.6	Authorized—500.0 shares		
	Outstanding—196.7 shares (195.9 in 2000)	19.7	19.6
Additional paid-in capital 83.2 64.3	Additional paid-in capital	83.2	64.3
Retained earnings 1,120.7 873.4	Retained earnings	1,120.7	873.4
Accumulated other comprehensive loss (167.4) (102.4)	Accumulated other comprehensive loss	(167.4)	(102.4)
Total stockholders' equity <u>1,056.2</u> 854.9	Total stockholders' equity	1,056.2	854.9
<u>\$2,423.6</u> \$2,430.8		\$2,423.6	\$2,430.8

	Years ended December 31		
	2001	2000	1999
Net sales	\$2,602.3	\$2,289.4	\$2,103.7
Cost of sales	963.8	815.2	989.7
Gross profit	1,638.5	1,474.2	1,114.0
Research, development and engineering expenses	142.1	122.2	105.2
Selling, general and administrative expenses	985.4	885.6	808.4
Acquisition-related and restructuring charges (credits)	0.6	(1.0)	18.9
	1,128.1	1,006.8	932.5
Other expense (income):			
Interest expense	67.9	96.6	122.6
Intangibles amortization	38.4	34.7	33.9
Other	(1.6)	1.2	(4.8)
	104.7	132.5	151.7
Earnings before income taxes and extraordinary item	405.7	334.9	29.8
Income taxes	133.9	113.9	10.4
Earnings before extraordinary item	271.8	221.0	19.4
Extraordinary loss, net of income taxes	(4.8)	_	
Net earnings	\$267.0	\$221.0	\$19.4
Basic earnings per share of common stock:			
Before extraordinary item	\$1.38	\$1.13	\$.10
Extraordinary loss	(\$.02)	_	_
Net earnings	\$1.36	\$1.13	\$.10
Diluted earnings per share of common stock:			
Before extraordinary item	\$1.34	\$1.10	\$.10
Extraordinary loss	(\$.02)	-	-
Net earnings	\$1.32	\$1.10	\$.10

See accompanying notes to consolidated financial statements.

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Total
Balances at January 1, 1999	\$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
Cumulative effect of accounting change related to					
cash flow hedges	-	-	_	3.5	3.5
Net earnings for 2001	-	-	267.0	-	267.0
Unrealized losses on securities of \$0.2, net of					
\$0.1 income tax benefit	_	-	_	(0.1)	(0.1)
Unrealized losses related to cash flow hedges	-	-	_	(22.0)	(22.0)
Foreign currency translation adjustments	_	-	_	(46.4)	(46.4)
Comprehensive earnings for 2001	-	-	-	-	198.5
Issuance of 0.8 shares of common stock under					
stock option and benefit plans, including					
\$10.4 income tax benefit	0.1	18.9	-	-	19.0
Cash dividend declared of \$.10 per share of					
common stock		_	(19.7)	-	(19.7)
Balances at December 31, 2001	\$19.7	\$83.2	\$1,120.7	(\$167.4)	\$1,056.2

	Years Ended December 31		31
	2001	2000	1999
Operating Activities			
Net earnings	\$267.0	\$221.0	\$19.4
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	74.5	74.7	67.8
Amortization	97.5	93.9	95.0
Write-off of unamortized deferred loan costs	7.1	-	_
Sales of inventory stepped-up to fair value at acquisition	_	-	198.2
Acquisition-related and restructuring charges (credits)	0.6	(1.0)	18.9
Payments of acquisition-related and restructuring charge liabilities	(3.7)	(7.3)	(23.2)
Provision for losses on accounts receivable	16.9	7.2	15.0
Deferred income taxes (credit)	29.1	28.7	(48.6)
Other	9.2	8.0	7.5
Changes in operating assets and liabilities, net of effects of business acquisitions:			
Proceeds from accounts receivable securitization	2.7	30.3	97.0
Accounts receivable	(23.8)	(24.6)	(65.9)
Inventories	(10.2)	(20.2)	14.7
Deferred charges	(65.1)	(68.2)	(62.0)
Accounts payable	9.8	(15.2)	(31.6)
Payments of acquisition purchase liabilities	(7.5)	(30.1)	(79.3)
Accrued expenses	40.2	49.3	45.0
Income taxes	27.9	(7.1)	(1.9)
Other	(3.9)	(7.6)	18.0
Net cash provided by operating activities	468.3	331.8	284.0
Investing Activities			
Business acquisitions, net of cash acquired	(43.0)	(24.5)	(14.6)
Proceeds from sales of property, plant and equipment	9.0	4.8	0.2
Purchases of property, plant and equipment	(161.9)	(80.7)	(76.4)
Purchases of marketable securities	_	-	(5.0)
Sales and maturities of marketable securities	_	7.1	16.4
Net cash used in investing activities	(195.9)	(93.3)	(79.4)
Financing Activities			
Proceeds from borrowings	935.8	209.9	81.9
Payments on borrowings	(1,211.4)	(463.3)	(304.3)
Dividends paid	(15.7)	(12.7)	(11.6)
Proceeds from exercise of stock options	14.7	14.2	7.2
Other	(1.0)	(6.8)	(3.8)
Net cash used in financing activities	(277.6)	(258.7)	(230.6)
Effect of exchange rate changes on cash and cash equivalents	1.3	(5.8)	(15.3)
Decrease in cash and cash equivalents	(3.9)	(26.0)	(41.3)
Cash and cash equivalents at beginning of year	54.0	80.0	121.3
Cash and cash equivalents at end of year	\$50.1	\$54.0	\$80.0

Notes to Consolidated Financial Statements Stryker Corporation and Subsidiaries

December 31, 2001

(in millions, except per share amounts)

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 of Products: Amounts billed to customers for shipping and handling of products is included in net sales in 2001. Prior to 2001, such amounts were recorded as an offset to cost of sales. Costs incurred related to shipping and handling of products is included in cost of sales. Prior to 2001, certain shipping costs were reported in selling, general and administrative expenses.

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 nonfunctional 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 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 marketable securities are included in other expense (income). Adjustments to fair value of the marketable 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 accounts receivable 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, net of the Company's retained interest, totaled \$130.0 and \$127.3 at December 31, 2001 and 2000, 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 held by Stryker Funding Corporation, which is in the form of a subordinated note, represents an overcollateralization of the undivided interest sold. This retained interest totaled \$76.8 and \$55.6 at December 31, 2001 and 2000, respectively. Discount expense associated with the securitization facility, including the conduit's financing cost of issuing its commercial paper, was \$5.8 in 2001, \$7.1 in 2000 and \$0.6 in 1999 and is included in selling, general and administrative expenses.

Inventories: Inventories are stated at the lower of cost or market. Cost for approximately 87% (89% in 2000) 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. The Company records excess and obsolete inventory reserves based on product line inventory levels compared to past sales history, expiration of sterilization dates and other pertinent criteria.

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 arising from business combinations prior to July 1, 2001 has been amortized on a straight-line basis over 10 to 40 years (weighted average life of 31 years). Other intangible assets include developed technology, which has been amortized on a straight-line basis over 20 years, and customer base (which reflects expected continued customer patronage), trademarks, trade names, patents and assembled workforce, which have been amortized on a straight-line basis over 5 to 35 years (weighted average life of 17 years for other intangible assets).

The Company currently evaluates the recoverability of goodwill by estimating the future undiscounted cash flows of the businesses to which the goodwill relates. This evaluation is made whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. Estimated cash flows are determined at an operational level for which identifiable cash flows can be determined. When estimated future undiscounted cash flows are less than the carrying amount of the net assets and related goodwill, impairment losses of goodwill are recognized and are charged to operations. In determining cash flows, the Company considers current and projected levels of income as well as business trends and market and economic conditions.

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 141, *Business Combinations* and Statement No. 142, *Goodwill and Other Intangible Assets*. Statement No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement No. 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives and requires the Company to evaluate these intangibles for impairment on an annual basis. It is effective for business combinations completed after June 30, 2001. The Company began applying the provisions of Statement No. 142 to acquisitions completed subsequent to June 30, 2001. The goodwill recorded as a result of those acquisitions is not being amortized. For goodwill and intangible assets arising from business combinations completed before July 1, 2001, the Company is required to apply the provisions of Statement No. 142 beginning on January 1, 2002. In accordance with the Statement provisions, an assembled workforce intangible asset with an unamortized balance of \$5.5 will be reclassified from other intangibles to goodwill at that date. Application of the nonamortization provisions of the Statement in the year ending December 31, 2002 is expected to reduce intangibles amortization by approximately \$16 million and increase net earnings by approximately \$11 million (\$.05 per diluted share).

In the first quarter of 2002, the Company will perform the initial impairment tests of goodwill and indefinite-lived intangible assets as of January 1, 2002. The Company will test for impairment using the two-step process prescribed in Statement No. 142. The first step is a screen for potential impairment. The second step, if necessary, measures the amount of the impairment. Any impairment charge resulting from these initial impairment tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of 2002. The Company has not yet determined what effect the tests will have on its consolidated results of operations or financial position. The Company will perform a subsequent impairment test in the fourth quarter of 2002 and then at least annually thereafter.

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 borrowings are being amortized over the terms of the related borrowings using the effective-interest method. Deferred loan costs are classified in other assets and had a net book

value of \$2.9 and \$13.1 at December 31, 2001 and 2000, respectively. Amortization expenses for deferred loan costs are included in interest expense and were \$5.9 in 2001, \$8.2 in 2000 and \$7.4 in 1999. The prepayment of the remaining amounts outstanding under the Company's Senior Secured Credit Facilities in December 2001 resulted in the write-off of related unamortized deferred loan costs of \$7.1 (see Note 6).

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 income 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 currency exchange rates. The Company enters into interest rate swaps and currency forward contracts to manage these economic risks.

As of January 1, 2001, the Company adopted FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statements No. 137 and No. 138. 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 Company has entered into interest rate swap agreements that effectively convert a portion of its variable-rate borrowings to a fixed-rate basis through 2003, thus reducing the impact of changes in interest rates on future interest expense. Approximately 77% of the Company's outstanding variable-rate borrowings as of December 31, 2001 have been hedged through the designation of interest rate swap agreements classified as cash flow hedges. Upon adoption of the Statements on January 1, 2001 the Company recognized a gain from the cumulative effect of an accounting change of \$3.5 in accumulated other comprehensive gain (loss) related to the interest rate swap agreements. A loss of \$22.0 attributable to a decrease in the fair value of interest rate swap agreements was recorded as a component of accumulated other comprehensive gain (loss) in 2001. If in the future the interest rate swap agreements were determined to be ineffective, or were terminated before the contractual termination dates, or if it became probable that the hedged variable cash flows associated with the variable-rate borrowings would stop, the Company would be required to reclassify into earnings all or a portion of the unrealized gains (losses) on cash flow hedges included in accumulated other comprehensive gain (loss). Interest rate differentials to be paid or received as a result of interest rate swaps are recognized as an adjustment of interest expense related to the designated borrowings. Based on the maturities of the Company's interest rate swap agreements, interest expense for the year ending December 31, 2002 is expected to increase by \$8.2 through the recognition of amounts included as unrealized losses on cash flow hedges at December 31, 2001.

The Company uses currency forward contracts and cross-currency swaps to mitigate effects of currency exchange rate fluctuations on nonfunctional currency receivables and payables arising principally from intercompany financial activity. All currency forward contracts and cross-currency swaps are marked-to-market each period with resulting gains (losses) included in other expense (income) in the Consolidated Statements of Earnings.

The Company uses yen-denominated floating-rate borrowings to protect a portion of the value of its investment in its subsidiary in Japan. Realized and unrealized gains and losses from this hedge are not included in the Consolidated Statements of Earnings, but are recorded as foreign currency translation adjustments within accumulated other comprehensive gain (loss) in stockholders' equity. Net gains (losses) of \$5.8, \$7.7 and (\$7.4) attributable to the yen-denominated floating-rate borrowings hedge were recorded as foreign currency translation adjustments in 2001, 2000 and 1999, respectively.

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		
		Gains	Foreign	Accumulated
	Unrealized	(Losses) on	Currency	Other
	Losses on	Cash Flow	Translation	Comprehensive
	Securities	Hedges	Adjustments	Gain (Loss)
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)
Cumulative effect of accounting change related to cash flow hedges	_	\$3.5	_	3.5
Other comprehensive loss for 2001	(0.1)	(22.0)	(46.4)	(68.5)
Balances at December 31, 2001	(\$0.9)	(\$18.5)	(\$148.0)	(\$167.4)

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, 2001:				
Equity securities	\$2.6	_	(\$1.4)	\$1.2
Other investments	9.3	_	_	9.3
Total	\$11.9	_	(\$1.4)	\$10.5
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

The Company did not realize any gains or losses on sales of the Company's investments in 2001. Gross realized gains on sales of the Company's investments totaled \$7.2 and \$2.5 in 2000 and 1999, respectively, and gross realized losses totaled \$3.9 and \$0.1 in 2000 and 1999, respectively.

Interest income, which is included in other income, totaled \$2.2 in 2001, \$4.1 in 2000 and \$4.2 in 1999.

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

At December 31, 2001, the Company had outstanding forward currency exchange contracts to purchase \$97.4 and sell \$72.1 of various currencies (principally U.S. dollars and euros) with maturities ranging principally from 30 to 180 days. At December 31, 2000, the Company had outstanding forward currency exchange contracts to purchase \$82.7 and sell \$33.8 of various currencies (principally U.S. dollars and euros) with maturities ranging from 30 to 180 days. The estimated fair value of forward currency exchange contracts represents the measurement of the contracts at month-end spot rates as adjusted for amortized forward points.

The Company manages its interest rate risk on its borrowings through the purchase of interest rate swap agreements. Under the agreements, the Company has fixed the base rate on a \$550.0 notional amount of the \$717.2 of variable-rate borrowings outstanding at December 31, 2001 at an average rate of 5.44%. The interest rate swaps mature over various terms ranging from September 2002 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 paid \$18.5 at December 31, 2001 and would have received \$3.5 at December 31, 2000 to terminate the interest rate swap agreements outstanding at those respective dates.

The Company is exposed to credit loss in the event of nonperformance by counterparties on the above instruments, but does not anticipate nonperformance by any of the counterparties.

Note 3 Inventories

Inventories are summarized as follows:

December 31	
2001	2000
\$306.9	\$290.6
38.6	49.7
61.6	58.8
407.1	399.1
7.3	7.0
\$399.8	\$392.1
	2001 \$306.9 38.6 61.6 407.1 7.3

Note 4 Business Acquisitions

In November 2001, the Company acquired the business of an independent Italian distributor of certain of the Company's products at a cost of approximately euro 28.2 (\$25.3). An initial cash payment of euro 7.3 (\$6.5) was made in November 2001, with the remaining purchase price to be paid ratably over a five-year period. The purchase consolidates the distribution of substantially all of the Company's products in Italy. The acquisition was accounted for using the purchase method of accounting. Tangible assets acquired include \$5.1 of inventory and \$0.8 of deferred charges. Intangible assets acquired principally include customer base and noncompete agreements. Approximately \$10.2 of the purchase price has been allocated to customer base and is being amortized over 20 years. Approximately \$9.2 of the purchase price has been allocated to other intangibles, principally noncompete agreements, and is being amortized over a weighted average life of four 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 electro-surgery 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, 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 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 0.3 shares of Stryker common stock (\$9.4 value). The acquisition was accounted for using the purchase method of accounting. Substantially the entire purchase price for InfoMedix was allocated to goodwill, which is being amortized over 20 years.

On December 4, 1998, the Company acquired Howmedica, the orthopaedic division of Pfizer Inc., for \$1,650.0 in cash. The acquisition of Howmedica was accounted for using the purchase method of accounting. The purchase price of \$1,650.0 in cash plus a final payment of \$27.2 made in July 2001 for a contractually required working capital adjustment and liabilities assumed was allocated to the assets acquired, based on their estimated fair values at the date of acquisition.

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 was increased as a result of the step-up, which reduced pretax earnings for 1999 by \$198.2 (\$128.8 net of income taxes). The Company also incurred \$4.7 in charges related to the acquisition that were charged to operations during 1999 (see Note 5).

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 additional purchase liabilities included 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 were provided for workforce reductions covering approximately 1,250 Howmedica employees and the cost of the distributor conversions was based on negotiated contracts. The Howmedica facility closures included two facilities in Europe and certain facilities in the United States. The contractual obligations represented 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 were recorded were completed during 1999 and 2000. These activities included the conversion of Howmedica's distribution network to direct sales and the planned workforce reductions of Howmedica employees. Payments of severance and related costs are expected to be completed by the first quarter of 2002. The two Howmedica facilities in Europe and one U.S. facility were closed during 1999, and the remaining leased facilities in the United States were closed during 2000 and 2001. Facility closure and contractual obligations include lease obligation payments that extend to 2008.

The following table provides a rollforward from December 31, 1999 to December 31, 2001 of the additional purchase liabilities recorded in connection with the acquisition of Howmedica:

			Facility
	Severance		Closures &
	& Related	Distributor	Contractual
	Costs	Conversions	Obligations
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
Reductions	(0.1)	-	(0.1)
Payments	(1.4)	(0.9)	(5.2)
Foreign currency translation effects	(0.1)	_	(0.1)
Balances at December 31, 2001	\$0.1	\$2.7	\$1.3

The use of shares of Stryker common stock in connection with certain of the acquisitions discussed above represents a non-cash investing activity that is not reflected in the Consolidated Statements of Cash Flows. Pro forma consolidated results would not differ significantly from reported results for any of the above acquisitions.

Note 5 Acquisition-Related and Restructuring Charges

In 2001, 2000 and 1999, the Company recorded acquisition-related and restructuring pretax charges (credits) consisting of the following items:

	2001	2000	1999
Acquisition-related charges (credits):			
Severance and related costs	\$0.9	-	_
Reorganization of distribution channels	_	(\$1.2)	\$4.7
Total acquisition-related charges (credits)	0.9	(1.2)	4.7
Restructuring charges (credits):			
Reorganization of distribution channels	0.7	(2.1)	_
Severance and related costs	(0.6)	1.3	11.6
Discontinuance of product line	(0.4)	(0.4)	2.6
Other	_	1.4	
Total restructuring charges (credits)	(0.3)	0.2	14.2
Total acquisition-related and restructuring charges (credits)	\$0.6	(\$1.0)	\$18.9

The 2001 acquisition-related charges include \$0.9 for severance and related costs associated with the reorganization of the Company's sales structure in Italy to accommodate the integration of the business acquired in the fourth quarter of 2001 from the Company's independent Italian distributor (see Note 4). The reorganization established a direct sales force in Italy that will distribute the Company's full product portfolio. The \$0.9 charge covers severance costs for three employees in Italy and costs to cancel contracts with discontinued agents. The reorganization of the sales structure in Italy is expected to be completed in the first quarter of 2002.

The acquisition-related charges for the reorganization of Stryker's distribution channels (credit of \$1.2 in 2000 and charge of \$4.7 in 1999) encompassed the conversion of the 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 to accommodate the integration of the Howmedica sales force. These conversions provided the Company greater control over the distribution channels and facilitated the integration with the Howmedica organization. The cost of the conversions was based on contractual terms.

The 2001 restructuring credits of \$0.3 relate to various restructuring events in the fourth quarter of 2001. The \$0.7 charge related to reorganization of distribution channels reflects the cost to terminate a distributor in Latin America. The cost of the termination is based on contractual terms. The \$0.6 credit for severance and related costs reflects charges of \$0.8 offset by credits of \$1.4. The \$0.8 charge covers severance costs for 10 employees in Europe. Planned workforce reductions are expected to be completed in the first quarter of 2002. The \$1.4 credit relates to a reduction in the expected cost to complete headcount reductions associated with the 2000 and 1999 reorganizations of the Company's European and Japanese distribution operations. The \$0.4 credit related to discontinuance of product line represents a reversal of remaining loss reserves established in Japan for discontinued ophthalmology inventories sold on a contingent basis in 1999.

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 partially offset by a credit of \$2.7. The \$4.0 charge covers severance costs for 95 employees, primarily in Europe. The planned workforce reductions were completed in 2001 and the remaining amount of this reserve has been reversed 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. The \$0.4 credit related to discontinuance of product line represents a reversal of a portion of the loss reserves established in Japan for discontinued ophthalmology inventories sold on a contingent basis in 1999. 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 have been completed and the remaining amount of this reserve has been reversed 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.

The following table provides a rollforward of remaining liabilities associated with acquisition-related, restructuring and special pretax charges recorded by the Company in 2001, 2000, 1999, 1998 and 1996:

	Distributor Conversions	Severance & Related Costs	Discontinuance of Product Line	Other
Balance at January 1, 1999	\$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	<u> </u>
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
Additions (reductions) recognized as charges (credits)				
in the 2001 Consolidated Statement of Earnings	0.7	0.3	(0.4)	_
Payments	(1.4)	(2.0)	_	(0.3)
Foreign currency translation effects	(0.1)	(0.4)	_	<u> </u>
Balances at December 31, 2001	\$2.6	\$2.6	\$0.0	\$0.2

Note 6 Borrowings and Other Financing Arrangements

Long-term debt is as follows:

	Deteili	Del 31
	2001	2000
U.S. dollar revolving loans	\$650.0	_
Term loans	-	\$767.3
Multicurrency loans	67.2	225.0
Other	5.4	20.2
	722.6	1,012.5
Less current maturities	1.7	136.0

In December 2001, the Company established \$1,000.0 in Unsecured Credit Facilities. These Facilities replaced the \$1,650.0 Senior Secured Credit Facilities that were established in 1998 in conjunction with the acquisition of Howmedica. A total of \$730.5 was initially drawn under the new Credit Facilities, of which \$642.7 prepaid the debt outstanding under the 1998 Facilities and \$87.8 was used to terminate the Company's synthetic lease and purchase its Mahwah, New Jersey, manufacturing and distribution facility (see Note 12).

\$720.9

\$876.5

The Unsecured Credit Facilities include a \$250.0 364-day revolving credit agreement and a \$750.0 five-year, nonamortizing, revolving credit agreement. The \$250.0 364-day revolving credit agreement bears interest at a base rate, as defined, plus an applicable margin ranging from 0.245% to 0.800%, depending on the Company's debt rating. The \$750.0 five-year, nonamortizing, revolving credit agreement has a \$250.0 multicurrency sublimit, under which yen and euro can be borrowed. The five-year facility also has a \$50.0 swing line sublimit and a \$100.0 letter of credit sublimit. The five-year facility bears interest at a base rate, as defined, plus an applicable margin ranging from 0.235% to 0.775%, depending on the Company's debt rating. The Unsecured Credit Facilities require a commitment fee ranging from 0.055% to 0.225% on the aggregate commitment of the facilities, depending on the Company's debt rating. In addition, a utilization fee of 0.125% is required when the sum of the outstanding amounts exceeds 50% of the aggregate commitments. At December 31, 2001, the weighted average interest rate for all borrowings under the Unsecured Credit Facilities, after considering the effects of the Company's interest rate swaps, was 4.90%. The Facilities require the Company to comply with certain financial and other covenants.

At December 31, 2001, the Company had borrowed yen 4,820.5 and euro 33.2 under the multicurrency sublimit available under the five-year revolving credit agreement. 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.

The \$1,650.0 Senior Secured Credit Facilities that were prepaid in December 2001 consisted of \$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 Senior Secured Credit Facilities had a weighted average interest rate for all borrowings, after considering the effects of the Company's interest rate swaps, of 7.05% during 2001.

The prepayment of the remaining amounts outstanding under the Senior Secured Credit Facilities in December 2001 resulted in the write-off of related unamortized deferred loan costs of \$7.1, which has been reflected as an extraordinary loss of \$4.8 (net of income taxes of \$2.3; \$.02 per basic and diluted share) in the Consolidated Statements of Earnings.

The Company has fixed the base rate on a \$550.0 notional amount of the variable-rate borrowings at an average rate of 5.44% using interest rate swaps (see Note 2).

Maturities of debt for the four years succeeding 2002 are: 2003 - \$0.2; 2004 - \$0.1; 2005 - \$0.1; and 2006 - \$717.4.

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

Interest paid on debt was \$66.9 in 2001, \$94.3 in 2000 and \$126.1 in 1999 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:

		Weighted- Average
	Shares	Exercise Price
Options outstanding at January 1, 1999	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
Granted	2.0	46.86
Canceled	(0.2)	26.78
Exercised	(0.8)	13.06
Options outstanding at December 31, 2001	12.2	\$24.87
Price range \$5.59 - \$10.00	1.2	\$6.29
Price range \$10.01 - \$20.00	3.9	14.50
Price range \$20.01 - \$30.00	2.5	24.25
Price range \$30.01 - \$40.00	2.6	32.41
Price range \$40.01 - \$53.39	2.0	46.85
Options outstanding at December 31, 2001	12.2	\$24.87
•		

Shares reserved for future grants were 11.2 and 13.0 at December 31, 2001 and 2000, respectively.

Exercise prices for options outstanding as of December 31, 2001 ranged from \$5.59 to \$53.39. A summary of shares exercisable follows:

		Average
	Shares	Exercise Price
Price range \$5.59 - \$10.00	1.2	\$6.29
Price range \$10.01 - \$20.00	3.0	13.91
Price range \$20.01 - \$30.00	1.0	24.24
Price range \$30.01 - \$45.19	0.5	32.46
Shares exercisable at December 31, 2001	5.7	\$15.75

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:

2001	2000	1999
\$267.0	\$221.0	\$19.4
255.2	211.1	13.7
\$1.36	\$1.13	\$.10
\$1.30	\$1.08	\$.07
\$1.32	\$1.10	\$.10
\$1.26	\$1.05	\$.07
	\$267.0 255.2 \$1.36 \$1.30	\$267.0 \$221.0 255.2 211.1 \$1.36 \$1.13 \$1.30 \$1.08 \$1.32 \$1.10

The weighted-average fair value per share of options granted during 2001, 2000 and 1999, estimated on the date of grant using the Black-Scholes option pricing model, was \$21.76, \$14.82 and \$11.68, respectively. The fair value of options granted is estimated on the date of grant using the following assumptions:

	2001	2000	1999
Risk-free interest rate	4.99%	5.17%	6.46%
Expected dividend yield	0.15%	0.26%	0.29%
Expected stock price volatility	38.0%	37.0%	38.0%
Expected option life	6.6 years	6.5 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 stock-holders 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 earnings per share:

	2001	2000	1999
Earnings before extraordinary item	\$271.8	\$221.0	\$19.4
Extraordinary loss, net of income taxes	(4.8)	_	<u> </u>
Net earnings	\$267.0	\$221.0	\$19.4
Weighted-average shares outstanding for basic earnings per share	196.3	195.1	193.8
Effect of dilutive employee stock options	6.7	6.0	4.8
Adjusted weighted-average shares outstanding for diluted earnings per share	203.0	201.1	198.6
Basic earnings per share of common stock:			
Before extraordinary item	\$1.38	\$1.13	\$.10
Extraordinary loss	(\$.02)	-	-
Net earnings	\$1.36	\$1.13	\$.10
Diluted earnings per share of common stock:			
Before extraordinary item	\$1.34	\$1.10	\$.10
Extraordinary loss	(\$.02)	-	-
Net earnings	\$1.32	\$1.10	\$.10

Note 9 Retirement Plans

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

	December	31
	2001	2000
Change in benefit obligations:		
Benefit obligations at beginning of year	\$71.3	\$67.6
Service cost	3.9	3.8
Interest cost	4.1	3.9
Foreign exchange impact	(2.2)	(3.6)
Employee contributions	0.4	0.4
Plan amendments	0.4	2.4
Actuarial and curtailment losses (gains)	2.0	(0.2)
Plan termination	(8.1)	-
Benefits paid	(3.3)	(3.0)
Benefit obligations at end of year	68.5	71.3
Change in plan assets:		
Fair value of plan assets at beginning of year	59.8	60.9
Actual return	(1.3)	1.5
Employer contributions	3.8	2.5
Employee contributions	0.4	0.4
Foreign exchange impact	(1.5)	(2.5)
Plan termination	(9.9)	-
Benefits paid	(3.3)	(3.0)
Fair value of plan assets at end of year	48.0	59.8
Amount underfunded	(20.5)	(11.5)
Unrecognized net actuarial gain	(1.6)	(7.6)
Unrecognized transition amount	0.7	0.8
Unrecognized prior service cost	2.1	2.6
Accrued benefit liability recognized in Consolidated Balance Sheets	(\$19.3)	(\$15.7)
Weighted-average assumptions as of December 31:		
Discount rate	6.1%	6.2%
Expected return on plan assets	6.6%	6.6%
Rate of compensation increase	3.3%	3.2%

	2001	2000	1999
Components of net periodic benefit cost:			
Service cost	\$3.9	\$3.8	\$4.5
Interest cost	4.1	3.9	3.9
Expected return on plan assets	(3.8)	(3.9)	(3.9)
Amortization of transition amounts and prior service cost	0.3	0.3	0.2
Recognized actuarial gain	(0.2)	(0.2)	(0.3)
Plan termination loss	0.5	-	
Net periodic benefit cost	\$4.8	\$3.9	\$4.4

A subsidiary of the Company terminated its defined benefit plan in 2001 and transferred the plan assets and related benefit obligations to a defined contribution retirement plan. The loss on plan termination was \$0.5.

Retirement plan expense under the Company's profit sharing and defined contribution retirement plans totaled \$36.5 in 2001, \$31.9 in 2000 and \$31.9 in 1999. A portion of the Company's retirement plan expenses was funded with Stryker common stock totaling \$3.4 in 2001, \$3.1 in 2000 and \$2.0 in 1999. The use of Stryker common stock represents a noncash investing activity that is not reflected in the Consolidated Statements of Cash Flows. The amount of Stryker common stock held by the Company's defined contribution retirement plans totaled \$42.6 (0.7 shares) and \$34.3 (0.7 shares) as of December 31, 2001 and 2000, respectively. The value of Stryker common stock as a percentage of total defined contribution retirement plan assets was 17.9% as of December 31, 2001 and 14.9% as of December 31, 2000.

Note 10 Income Taxes

Earnings before income taxes and extraordinary item consist of the following:

	2001	2000	1999
United States operations	\$241.2	\$197.4	\$40.5
Foreign operations	164.5	137.5	(10.7)
	\$405.7	\$334.9	\$29.8
The components of the provision for income taxes follow:			
	2001	2000	1999
Current income tax expense:			
Federal	\$51.4	\$44.8	\$38.1
State, including Puerto Rico	14.2	10.1	3.8
Foreign	39.2	30.3	17.2
	104.8	85.2	59.1
Deferred income tax expense (credit)	29.1	28.7	(48.7)
	\$133.9	\$113.9	\$10.4

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

	2001	2000	1999
U.S. statutory income tax rate	35.0%	35.0%	35.0%
Add (deduct):			
State taxes, less effect of federal deduction	1.5	1.7	10.7
Tax benefit relating to operations in Ireland and Puerto Rico	(7.1)	(6.9)	(30.5)
Earnings of Foreign Sales Corporation	(0.9)	(2.2)	(12.0)
Nondeductible (deductible) permanent differences	(1.3)	3.7	18.6
Tax benefit relating to foreign tax credit	(0.1)	(2.2)	(11.9)
Foreign income taxes at rates different from the U.S. statutory rate	6.7	7.1	27.6
Other	(0.8)	(2.2)	(2.6)
	33.0%	34.0%	34.9%

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	
	2001	2000
Deferred tax assets:		
Inventories	\$84.6	\$95.1
Accounts receivable and other assets	7.9	11.9
Other accrued expenses	33.5	36.7
Depreciation and amortization	33.3	43.0
State taxes	7.5	7.1
Net operating loss carryforwards	34.4	38.4
Other	30.7	20.5
Total deferred tax assets	231.9	252.7
Deferred tax liabilities:		
Depreciation and amortization	(33.7)	(45.5)
Other accrued expenses	(5.0)	(4.6)
Interest rate swaps	(7.6)	-
Other	(18.4)	(7.7)
Total deferred tax liabilities	(64.7)	(57.8)
Total net deferred tax assets	\$167.2	\$194.9

Net operating loss carryforwards totaling approximately \$96.0 at December 31, 2001 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:

	Becomber or	
	2001	2000
Current assets—Deferred income taxes	\$171.5	\$168.7
Noncurrent assets—Deferred income taxes	60.4	84.0
Current liabilities—Accrued expenses and other liabilities	(12.0)	(7.3)
Noncurrent liabilities—Other liabilities	(52.7)	(50.5)
Total net deferred tax assets	\$167.2	\$194.9

December 31

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 (\$472.5 at December 31, 2001) 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 \$63.0 in 2001, \$75.3 in 2000 and \$69.4 in 1999.

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 (hip, knee and shoulder), trauma and spinal implants. The MedSurg Equipment segment sells powered surgical instruments, endoscopic systems, medical video imaging equipment, hospital beds and stretchers and Leibinger craniomaxillofacial implants and image-guided surgical systems. 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 are allocated when used jointly. Corporate assets are principally cash and cash equivalents, 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, 2001				
Net sales	\$1,442.5	\$978.9	\$180.9	\$2,602.3
Interest income	_	_	2.2	2.2
Interest expense	_	_	67.9	67.9
Depreciation and amortization expense	129.6	34.6	7.8	172.0
Acquisition-related and restructuring charges (credits)	0.8	(0.2)	_	0.6
Income taxes (credit)	111.1	54.5	(31.7)	133.9
Segment earnings (loss) before extraordinary item	197.7	115.5	(41.4)	271.8
Extraordinary loss, net of income taxes	_	_	(4.8)	(4.8)
Segment net earnings (loss)	197.7	115.5	(46.2)	267.0
Total assets	1,737.6	574.6	111.4	2,423.6
Capital expenditures	133.5	21.6	6.8	161.9
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

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

Latin / interior and the winduit Last. Geographic information follows.		Long-Lived
	Net Sales	Assets
Year ended December 31, 2001		
United States	\$1,688.4	\$780.7
Europe	414.5	455.6
Japan	266.5	94.1
Other foreign countries	232.9	39.7
	\$2,602.3	\$1,370.1
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

Gains (losses) on foreign currency transactions, which are included in other expense (income), totaled \$0.1, (\$4.6) and \$1.0 in 2001, 2000 and 1999, 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:

2002	\$31.1
2003	24.2
2004	16.8
2005	10.8
2006	7.4
Thereafter	14.2
	\$104.5

Rent expense totaled \$51.6 in 2001, \$42.2 in 2000 and \$42.3 in 1999.

In December 1999, the Company entered into a five-year lease for a new office, manufacturing and distribution facility to be built in Mahwah, New Jersey. In December 2001, the Company terminated this lease by purchasing the facility for \$87.8.

Note 13 Contingencies

The Company is involved in various proceedings, legal actions and claims arising in the normal course of business, including proceedings related to product, labor and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. The Company records amounts for losses that are deemed to be probable and subject to reasonable estimate. However, the Company does not anticipate material losses as a result of these proceedings beyond amounts already provided in the accompanying financial statements.

Summary of Quarterly Data (Unaudited) Stryker Corporation and Subsidiaries

(in millions, except per share data)

	2001 Quarter Ended				2000 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Net sales	\$634.2	\$639.0	\$619.3	\$709.8	\$562.1	\$566.5	\$548.4	\$612.4
Gross profit	401.9	401.7	390.5	444.4	360.5	363.5	353.7	396.5
Earnings before								
extraordinary item								
and income taxes	95.7	98.1	90.4	121.5	78.5	79.8	75.8	100.8
Earnings before								
extraordinary item	64.1	65.7	60.6	81.4	51.8	52.7	50.0	66.5
Extraordinary loss, net								
of income taxes	-	-	-	(4.8)	_	-	-	-
Net earnings	64.1	65.7	60.6	76.6	51.8	52.7	50.0	66.5
Net earnings per share								
of common stock:								
Basic	.33	.33	.31	.41 ^(a)	.27	.27	.26	.34
Diluted	.32	.32	.30	$.40^{(a)}$.26	.26	.25	.33
Market price of								
common stock:								
High	57.00	59.95	63.20	59.40	40.66	45.00	50.00	57.75
Low	43.30	49.04	44.78	51.19	24.39	31.13	38.63	38.50

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

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, 2001 and 2000, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. 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, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the financial statements, in 2001 the Company changed its method of accounting for derivative financial instruments.

Ernet + Young LLP

Grand Rapids, Michigan January 29, 2002

⁽a) Excludes net extraordinary loss per share of \$.02 basic and \$.02 diluted.

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 Chair of the Science and Technology Steering Committee for the Brookhaven National Laboratory

Jerome H. Grossman, M.D.* ‡

Director of the Harvard/Kennedy School Health Care Delivery Policy Program at Harvard University and Chairman and Chief Executive Officer, Lion Gate Management Corporation.

John S. Lillard* t

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
- ‡ Governance and Nominating Committee



Stryker Corporation Board of Directors (left to right)

Front row: Howard E. Cox, Jr., John W. Brown, Jerome H. Grossman, M.D.,

Ronda E. Stryker, and John S. Lillard

Back row: William U. Parfet, David J. Simpson, and Donald M. Engelman, Ph.D.

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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

Vice President and Treasurer

Stephen Si Johnson

Vice President; Group President, Stryker MedSurg

James E. Kemler

Vice President; Group President, Stryker Biotech, Spine and Trauma

James R. Lawson

Vice President; Group President, Stryker International

Edward B. Lipes

Vice President; Group President, Stryker Howmedica Osteonics

Eric Lum

Vice President, Tax

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

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Stryker Howmedica Osteonics

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Stryker Spine

Michael R. Mainelli, Jr. - President

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Stryker Japan

Yoshiaki Nakazawa - President

Stryker Pacific

Andrew Fox-Smith – Vice President, General Manager

General Counsel

Winston & Strawn, New York, New York

Auditors

Ernst & Young LLP, Grand Rapids, Michigan

Transfer Agent and Registrar

EquiServe Trust Company, N.A.

Jersey City, New Jersey

Shareholders needing information regarding their certificates or dividends should write or call:

EquiServe Trust Company, N.A., P.O. Box 2500, Jersey

City, New Jersey 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 Tuesday, April 23, 2002, 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 2001 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, Crossfire, EIUS, Eon, Howmedica, Osteonics, PainPump, Purefix, Scorpio, Steri-Shield, Stryker, Trident, TMZF, Xia and Zoom, and the trademarks: Accolade, Elite, Gamma, Go Bed, OP-1, Reflex, Restoration, Secure, Stabilis, Superflex, T2, TPS, Trio and U2. 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.

Stryker Corporation 2725 Fairfield Road Kalamazoo, Michigan 49002

P.O. Box 4085 Kalamazoo, Michigan 49003-4085

Telephone (616) 385-2600

www.strykercorp.com