McAdam Lowell C
Form 4
October 18, 2011

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
McAdam Lowell C

(Last) (First) (Middle)

VERIZON COMMUNICATIONS INC., 140 WEST STREET, 29TH FLOOR

(Street)

NEW YORK, NY 10007

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
VERIZON COMMUNICATIONS INC [VZ]

3. Date of Earliest Transaction (Month/Day/Year)
10/14/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
President and CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock								27,350	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Option to purchase Common Stock [(1)]	$ 7.94							11/29/2001	11/29/2010	Common Stock	3,250
Option to purchase Common Stock [(1)]	$ 8.63							11/08/2001	11/08/2010	Common Stock	15,000
Option to purchase Common Stock [(1)]	$ 17.97							08/04/2004	08/04/2013	Common Stock	15,000
Option to purchase Common Stock [(1)]	$ 17.39							04/20/2005	04/20/2014	Common Stock	15,000
Option to purchase Common Stock [(1)]	$ 18.26							06/27/2005	06/27/2010	Common Stock	1,250
Option to purchase Common Stock [(1)]	$ 17.07							07/07/2006	07/07/2015	Common Stock	15,000
Option to purchase Common Stock [(1)]	$ 11.72							02/13/2007	02/13/2016	Common Stock	15,000
Option to purchase Common Stock [(1)]	$ 12.15							06/26/2006	06/26/2011	Common Stock	1,250
Option to purchase Common	$ 14.17							06/26/2007	06/26/2012	Common Stock	1,250

Stock [(1)]										
Option to purchase Common Stock [(1)]	$ 16.46						05/08/2009	05/08/2018	Common Stock	20,000
Option to purchase Common Stock [(1)]	$ 15.59						06/26/2008	06/26/2013	Common Stock	1,250
Option to purchase Common Stock [(1)]	$ 15.61						09/19/2009	09/19/2018	Common Stock	20,000
Option to purchase Common Stock [(1)]	$ 13.25						04/22/2010	04/22/2019	Common Stock	50,000
Option to purchase Common Stock [(2)]	$ 15.09	06/26/2009		A	1,250		06/26/2009	06/26/2014	Common Stock	1,250

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SEGALAS DONNELL C/O ANNALY CAPITAL MANAGEMENT, INC. 1211 AVENUE OF THE AMERICAS, SUITE 2902 NEW YORK, NY 10036	X			

Signatures

/s/ Donnell Segalas	06/26/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Options previously granted.

(2) Options vested on 06/26/09.

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	$643.6	$440.0	46%
Purchased in-process research and development	15.9	120.8	(87)
Income taxes on repatriation of foreign earnings	27.4	--	--
Adjusted net earnings	$686.9	$560.8	22
Basic net earnings per share:			
Reported basic net earnings per share	$1.59	$1.10	45
Purchased in-process research and development	$.04	$.30	(87)
Income taxes on repatriation of foreign earnings	$.07		

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Adjusted basic net earnings per share

$1.70

$1.40

21

Weighted-average basic shares outstanding

403.7

401.2

Diluted net earnings per share:

Reported diluted net earnings per share

$1.57

$1.08

45

Purchased in-process research and development

$.04

$.30

(87)

Income taxes on repatriation of foreign earnings

$.07

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Adjusted diluted net earnings per share

$1.67

$1.37

22

Weighted-average diluted shares outstanding	410.8
	409.3

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

Liquidity and Capital Resources

The Company's working capital at December 31, 2006 increased $561.5 million to $2,182.8 million from $1,621.3 million at December 31, 2005. The increase in working capital resulted from growth in the Company's overall business and the use of cash earnings to fund increases in accounts receivable, inventories and prepaid expenses.

Accounts receivable days sales outstanding was 56 days at December 31, 2006 compared with 54 days at December 31, 2005. Days sales in inventory increased 8 days to 122 days at December 31, 2006 from 114 days at December 31, 2005. The increase in days sales in inventory at December 31, 2006 is primarily due to higher levels of inventory in support of anticipated product launches and first quarter sales as well as management's effort to run the manufacturing plants at a steady rate during the year.

The Company generated cash of $867.3 million from operations in 2006 compared with $833.4 million in 2005. The increase in cash from operations in 2006 compared with the prior year is primarily due to increased earnings partially offset by growth in the working capital accounts, primarily inventories and accounts receivable.

In 2006, the Company used cash of $217.5 million for capital expenditures, including $29.4 million related to the implementation of ERP systems at multiple manufacturing and distribution facilities; $24.1 million for the expansion of the Company's OP-1 manufacturing facility in Lebanon, New Hampshire; $17.5 million for the new corporate headquarters in Kalamazoo, Michigan; and $12.5 million for construction of the Homer Stryker Center for education and clinical research in Mahwah, New Jersey. In addition, the Company used cash of $97.1 million for acquisitions and $44.6 million for the payment of dividends. The Company also purchases and sells marketable securities, which are classified as available-for-sale investments in accordance with the provisions of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Marketable securities totaled $998.2 million at December 31, 2006.

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

The purchase price for eTrauma was allocated to the assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. Based on the purchase price allocation, $22.0 million was allocated to identifiable intangible assets, to be amortized over their remaining lives of 5 to 8 years, and $30.2 million was allocated to goodwill. Immediately after the acquisition was consummated, management of the Company began to implement an integration plan to combine Stryker and eTrauma. In conjunction with the integration plan, the Company recorded additional purchase liabilities for severance and related costs of $0.3 million, which were included in the purchase price allocation.

The Company had $416.6 million in cash and cash equivalents and $998.2 million in marketable securities at December 31, 2006. The Company also had outstanding borrowings totaling $14.8 million at that date, all of which were classified as current obligations. The Company believes its cash on hand and marketable securities, as well as anticipated cash flows from operations, will be sufficient to fund future operating capital requirements; future manufacturing facility construction and other capital expenditures; future business and product line acquisitions to supplement its current product offerings; loaner instrumentation for surgical implants in support of new product launches; required debt repayments and the payment of dividends.

Should additional funds be required, the Company had $1,028.1 million of additional borrowing capacity available under all of its existing credit facilities, including the Company's $1,000.0 million 5-year nonamortizing, revolving Unsecured Credit Facility that expires in November 2010. In addition, the Company had $200.0 million of eligible accounts receivable that could be sold through its accounts receivable securitization facility at December 31, 2006.

The Company's future contractual obligations for agreements with initial terms greater than 1 year, including agreements to purchase materials in the normal course of business, are summarized as follows (in millions):

	Payment Period					
	2007	2008	2009	2010	2011	Thereafter
Long-term debt	$14.8	$--	$--	$--	$--	$--
Operating leases	62.1	51.3	38.5	22.7	13.3	25.4
Unconditional purchase obligations	208.4	5.5	1.0	--	--	--

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

	Total Amount Committed	Amount of Commitment Expiration Per Period	
		Less than 1 year	In excess of 1 year
Unsecured Credit Facility and other lines of credit	$1,028.1	$65.8	$962.3

Critical Accounting Policies

The preparation of the Company's Consolidated Financial Statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management evaluates these estimates and assumptions on an ongoing basis. Estimates are based on historical experience, when available, and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes that of its significant accounting policies (see Note 1 to the Consolidated Financial Statements), an understanding of the following critical accounting policies is important in obtaining an overall understanding of the Consolidated Financial Statements.

Allowance for Doubtful Accounts

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

Inventory Reserves

The Company maintains reserves for excess and obsolete inventory resulting from the potential inability to sell its products at prices in excess of current carrying costs. The markets in which the Company operates are highly competitive and new products and surgical procedures are introduced on an ongoing basis. Such marketplace changes may cause some of the Company's products to become obsolete. The Company makes estimates regarding the future recoverability of the costs of these products and records a provision for excess and obsolete inventories based on historical experience, expiration of sterilization dates and expected future trends. If actual product life cycles, product demand or acceptance of new product introductions are less favorable than projected by management, additional inventory write-downs may be required, which could unfavorably affect future operating results.

Income Taxes

The Company operates in multiple tax jurisdictions both inside and outside the United States. Accordingly, management must determine the appropriate allocation of income to each of these jurisdictions. Tax audits associated with the allocation of this income and other complex issues, including inventory transfer pricing and product royalty arrangements, may require an extended period of time to resolve and may result in income tax adjustments if changes

to the income allocation are required between jurisdictions with different tax rates. Because tax adjustments in certain jurisdictions can be significant, the Company records accruals representing management's best estimate of the probable resolution of these matters. These income tax accruals are included

within the income taxes liability in the consolidated balance sheets. To the extent additional information becomes available, such accruals are adjusted to reflect the revised estimated probable outcome.

Other Matters

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

The Company enters into forward currency exchange contracts to mitigate the impact of currency fluctuations on transactions denominated in nonfunctional currencies, thereby limiting risk to the Company that would otherwise result from changes in exchange rates. These nonfunctional currency exposures principally relate to intercompany receivables and payables arising from intercompany purchases of manufactured products. The periods of the forward currency exchange contracts correspond to the periods of the exposed transactions, with realized gains and losses included in the measurement and recording of transactions denominated in the nonfunctional currencies. All forward currency exchange contracts are marked-to-market each period with resulting gains (losses) included in other income (expense) in the consolidated statements of earnings.

At December 31, 2006, the Company had outstanding forward currency exchange contracts to purchase $387.9 million and sell $227.0 million of various currencies (principally United States dollars and euros) with maturities ranging principally from 7 to 180 days. At December 31, 2005, the Company had outstanding forward currency exchange contracts to purchase $217.6 million and sell $196.1 million of various currencies (principally United States dollars and euros) with maturities ranging principally from 7 to 180 days. The estimated fair value of forward currency exchange contracts represents the measurement of the contracts at month-end spot rates as adjusted by current forward points. A hypothetical 10% change in foreign currencies relative to the U. S. dollar would change the December 31, 2006 fair value by approximately $9.7 million. The Company is exposed to credit loss in the event of nonperformance by counterparties on its outstanding forward currency exchange contracts but does not anticipate nonperformance by any of the counterparties.

The Company has certain investments in net assets in international locations that are not hedged. These investments are subject to translation gains and losses due to changes in foreign currencies that are deferred and recorded as a separate component of shareholders' equity. For the year ended December 31, 2006, the strengthening of foreign currencies relative to the United States dollar increased the value of these investments in net assets, and the related deferred gain in shareholders' equity, by $102.6 million to $119.6 million from $17.0 million at December 31, 2005.

The Company is partially self-insured for product liability claims and utilizes a wholly owned captive insurance company in the United States to manage its self-insured retention limits. The captive insurance company provides insurance reserves for estimated liabilities for product claims incurred but not reported based on actuarially determined liabilities. The actuarial valuations are based on historical information along with certain assumptions about future events.

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

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all consulting contracts, professional service agreements, or remuneration agreements between Stryker Corporation and any orthopedic surgeon, orthopedic surgeon in training, or medical school graduate using or considering the surgical use of hip or knee joint replacement/reconstruction products manufactured or sold by Stryker Corporation." In June 2006, the Company announced that it received a subpoena from the United States Department of Justice, Antitrust Division, requesting documents for the period January 2001 through the present regarding possible violations of federal criminal law, including possible violation of the antitrust laws, relating to the manufacture and sale of orthopaedic implant devices. The Company is fully cooperating with the Department of Justice regarding these matters.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109.* This Interpretation clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the Company's Consolidated Financial Statements. The Interpretation also provides guidance for the measurement and classification of tax positions, interest and penalties and requires additional disclosure on an annual basis. The Company plans to adopt the provisions of the Interpretation effective January 1, 2007, as required. The Company has not yet determined the effect the adoption of the Interpretation will have on the financial position of the Company but does not anticipate a material impact. Any difference between the amounts recognized in the Company's Consolidated Financial Statements prior to the adoption of the Interpretation and the amounts reported after the adoption will be accounted for as a cumulative-effect adjustment recorded in the beginning balance of retained earnings on January 1, 2007 and will not require restatement of prior periods.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk are included in the *Results of Operations* and *Other Matters* sections of the Company's Management's Discussion and Analysis of Financial Condition on pages 27 through 28 and

37 through 38, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

The Board of Directors and Shareholders of Stryker Corporation:

We have audited the accompanying consolidated balance sheets of Stryker Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and schedule are the responsibility of Stryker Corporation's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stryker Corporation and subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 1, 7 and 9 to the consolidated financial statements, in 2006 Stryker Corporation changed its methods of accounting for share-based payments and retirement plans in connection with the required adoption of Statement of Financial Accounting Standards Nos. 123(R) and 158, respectively.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Stryker Corporation's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 2, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Grand Rapids, Michigan
February 2, 2007

CONSOLIDATED BALANCE SHEETS
Stryker Corporation and Subsidiaries
(in millions, except per share amounts)

December
31

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	$416.6	$491.2
Marketable securities	998.2	565.3
Accounts receivable, less allowance of $50.1 ($53.4 in 2005)	907.0	770.3
Inventories	677.6	563.5
Deferred income taxes	417.2	383.1
Prepaid expenses and other current assets	117.7	96.7
Total current assets	3,534.3	2,870.1
Property, Plant and Equipment		
Land, buildings and improvements	651.0	559.4
Machinery and equipment	1,000.0	843.1
	1,651.0	1,402.5
Less allowance for depreciation	699.3	571.5
	951.7	831.0
Other Assets		
Goodwill	531.3	513.2
Other intangibles, less accumulated amortization of $286.0 ($237.5 in 2005)	405.7	409.7
Loaner instrumentation, less accumulated amortization of $564.6 ($422.3 in 2005)	287.7	245.6
Deferred income taxes	118.6	91.1
Other	44.5	31.8
	1,387.8	1,291.4
	$5,873.8	$4,992.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$252.2	$206.5
Accrued compensation	285.9	252.9
Income taxes	208.2	207.3
Dividend payable	89.7	44.6
Accrued expenses and other liabilities	500.7	490.1
Current maturities of long-term debt	14.8	47.4
Total current liabilities	1,351.5	1,248.8
Long-Term Debt, Excluding Current Maturities	--	184.2
Other Liabilities	331.3	259.3
Shareholders' Equity		
Common stock, $.10 par value:		
Authorized-1,000.0 shares		
Outstanding- 407.9 shares (405.2 in 2005)	40.8	40.5
Additional paid-in capital	569.1	452.0
Retained earnings	3,490.5	2,802.5
Accumulated other comprehensive gain	90.6	5.2
Total shareholders' equity	4,191.0	3,300.2
	$5,873.8	$4,992.5

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EARNINGS
Stryker Corporation and Subsidiaries
(in millions, except per share amounts)

	Years ended December 31		
	2006	2005	2004
Net sales	$5,405.6	$4,871.5	$4,262.3
Cost of sales	1,848.7	1,718.5	1,513.8
Gross profit	3,556.9	3,153.0	2,748.5
Research, development and engineering expenses	324.6	284.7	214.9
Selling, general and administrative expenses	2,061.7	1,853.5	1,683.5
Intangibles amortization	43.6	48.8	47.8
Purchased in-process research and development	52.7	15.9	120.8
	2,482.6	2,202.9	2,067.0
Operating income	1,074.3	950.1	681.5
Other income (expense)	29.5	4.5	(3.4)
Earnings before income taxes	1,103.8	954.6	678.1
Income taxes	326.1	311.0	238.1
Net earnings	$777.7	$643.6	$440.0
Net earnings per share of common stock:			
Basic	$1.91	$1.59	$1.10
Diluted	$1.89	$1.57	$1.08

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Stryker Corporation and Subsidiaries
(in millions, except per share amounts)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Total
Balances at January 1, 2004	$39.9	$244.7	$1,799.7	$99.6	$2,183.9

Net earnings for 2004	--	--	440.0	--	440.0
Unrealized gains on securities of $0.4, net of $0.1 income tax expense	--	--	--	0.3	0.3
Unfunded pension losses, net of $0.6 income tax benefit	--	--	--	(3.8)	(3.8)
Foreign currency translation adjustments	--	--	--	102.2	102.2
Comprehensive earnings for 2004					538.7
Issuance of 3.1 shares of common stock under stock option and benefit plans, including $33.8 excess income tax benefit	0.4	61.9	--	--	62.3
Share-based compensation	--	39.5	--	--	39.5
Cash dividend declared of $.09 per share of common stock	--	--	(36.2)	--	(36.2)
Balances at December 31, 2004	40.3	346.1	2,203.5	198.3	2,788.2
Net earnings for 2005	--	--	643.6	--	643.6
Unrealized gains on securities of $1.0, net of $0.4 income tax expense	--	--	--	0.6	0.6
Unfunded pension losses, net of $1.2 income tax benefit	--	--	--	(0.8)	(0.8)
Foreign currency translation adjustments	--	--	--	(192.9)	(192.9)
Comprehensive earnings for 2005					450.5
Issuance of 2.7 shares of common stock under stock option and benefit plans, including $30.4 excess income tax benefit	0.2	56.5	--	--	56.7
Share-based compensation	--	49.4	--	--	49.4
Cash dividend declared of $.11 per share of common stock	--	--	(44.6)	--	(44.6)
Balances at December 31, 2005	40.5	452.0	2,802.5	5.2	3,300.2
Net earnings for 2006	--	--	777.7	--	777.7
Unrealized losses on securities of $1.3, net of $0.4 income tax benefit	--	--	--	(0.9)	(0.9)
Unfunded pension gains, net of $1.5 income tax expense	--	--	--	2.6	2.6
Foreign currency translation adjustments	--	--	--	102.6	102.6
Comprehensive earnings for 2006					882.0
Issuance of 2.8 shares of common stock under stock option and benefit plans, including $26.1 excess income tax benefit	0.3	60.2	--	--	60.5
Share-based compensation	--	56.9	--	--	56.9
Cash dividend declared of $.22 per share of common stock	--	--	(89.7)	--	(89.7)
Adjustments to adopt FASB Statement No. 158, net of $3.9 income tax benefit	--	--	--	(18.9)	(18.9)
Balances at December 31, 2006	$40.8	$569.1	$3,490.5	$90.6	$4,191.0

See accompanying notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
Stryker Corporation and Subsidiaries
(in millions)

	Years ended December 31		
	2006	2005	2004
Operating Activities			
Net earnings	$777.7	$643.6	$440.0
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	123.5	106.1	102.7
Amortization	208.3	183.8	148.2
Share-based compensation	56.9	49.4	39.5
Income tax benefit from exercise of stock options	33.2	35.0	39.8
Excess income tax benefit from exercise of stock options	(26.1)	(30.4)	(33.8)
Purchased in-process research and development	52.7	15.9	120.8
Payments of restructuring and acquisition-related liabilities	--	--	(3.8)
Provision for losses on accounts receivable	7.8	9.0	18.4
Deferred income tax expense (credit)	(27.1)	7.9	(72.7)
Other	6.0	7.8	10.2
Changes in operating assets and liabilities, net of effects of acquisitions:			
Reductions of accounts receivable securitization	--	--	(150.0)
Accounts receivable	(111.8)	(71.1)	(93.5)
Inventories	(86.8)	(39.7)	(63.0)
Loaner instrumentation	(198.1)	(189.4)	(161.4)
Accounts payable	39.1	(2.5)	68.3
Payments of acquisition purchase liabilities	--	(1.6)	(0.2)
Accrued expenses and other liabilities	24.0	75.0	138.4
Income taxes	(8.6)	18.0	34.0
Other	(3.4)	16.6	(22.4)
Net cash provided by operating activities	867.3	833.4	559.5
Investing Activities			
Acquisitions, net of cash acquired	(97.1)	(59.7)	(144.7)
Purchases of marketable securities	(9,137.8)	(1,543.4)	--
Proceeds from sales of marketable securities	8,709.7	968.4	--
Purchases of property, plant and equipment	(217.5)	(271.7)	(187.8)
Proceeds from sales of property, plant and equipment	0.4	3.4	8.5
Net cash used in investing activities	(742.3)	(903.0)	(324.0)

Financing Activities			
Proceeds from borrowings	113.7	586.3	538.6
Payments on borrowings	(340.9)	(364.8)	(556.0)
Dividends paid	(44.6)	(36.2)	(28.0)
Proceeds from exercise of stock options	48.6	30.4	37.3
Excess income tax benefit from exercise of stock options	26.1	30.4	33.8
Other	(6.1)	(13.8)	18.7
Net cash provided by (used in) financing activities	(203.2)	232.3	44.4
Effect of exchange rate changes on cash and cash equivalents	3.6	(20.9)	3.6
Increase (decrease) in cash and cash equivalents	(74.6)	141.8	283.5
Cash and cash equivalents at beginning of year	491.2	349.4	65.9
Cash and cash equivalents at end of year	$416.6	$491.2	$349.4

See accompanying notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Stryker Corporation and Subsidiaries
December 31, 2006

NOTE 1
SIGNIFICANT ACCOUNTING POLICIES

Business: Stryker Corporation (the Company or Stryker) is one of the world's leading medical technology companies with the most broadly based range of products in orthopaedics and a significant presence in other medical specialties. Stryker works with respected medical professionals to help people lead more active and more satisfying lives. The Company's products include implants used in joint replacement, trauma, craniomaxillofacial and spinal surgeries; biologics; surgical, neurologic, ear, nose & throat and interventional pain equipment; endoscopic, surgical navigation, communications and digital imaging systems; as well as patient handling and emergency medical equipment. Stryker also provides outpatient physical therapy services in the United States.

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

Revenue Recognition: A significant portion of the Company's Orthopaedic Implants revenue is generated from consigned inventory maintained at hospitals or with field representatives. For these products, revenue is recognized at

the time the Company receives appropriate notification that the product has been used or implanted. The Company records revenue from MedSurg Equipment product sales when title and risk of ownership have been transferred to the customer, which is typically upon shipment to the customer. For its Physical Therapy Services line of business, the Company records revenue when the services have been rendered. The Company records estimated sales returns, discounts and other applicable adjustments as a reduction of net sales in the same period revenue is recognized.

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

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

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

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

The Company's marketable securities and other investments are stated at fair value based on quoted market prices. Adjustments to the fair value of marketable securities and other investments that are classified as available-for-sale are recorded as increases or decreases, net of income taxes, within accumulated other comprehensive gain (loss) in shareholders' equity. Adjustments to the fair value of other investments that are classified as trading are recorded in earnings as offsets to the related changes in liabilities under deferred

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compensation arrangements. The amortized cost of marketable debt securities classified as available-for-sale is adjusted for amortization of premiums and discounts to maturity computed under the effective interest method. Such amortization is included in other income (expense) along with interest and realized gains and losses. The cost of securities sold is determined by the specific identification method.

Accounts Receivable: Accounts receivable consists of trade and other miscellaneous receivables. The Company maintains an allowance for doubtful accounts for estimated losses in the collection of accounts receivable. The Company makes estimates regarding the future ability of its customers to make required payments based on historical credit experience and expected future trends.

Accounts Receivable Securitization: The Company has an accounts receivable securitization facility pursuant to which certain subsidiaries of the Company sell, on an ongoing basis, all of their domestic accounts receivable to Stryker Funding Corporation (SFC), a wholly owned special-purpose subsidiary of the Company, which in turn may sell, without recourse, up to an aggregate of a $200.0 million undivided percentage ownership interest in such receivables

to bank-administered multiseller commercial paper conduits. Creditors of SFC have a claim to its assets before any equity becomes available to the Company.

There were no amounts of undivided percentage ownership interests in accounts receivable sold by SFC under the facility as of December 31, 2006 and 2005. Accounts receivable sold would be reflected in the consolidated balance sheet as reductions of accounts receivable in the period sold. The amount of receivables available to be sold is subject to change monthly, based on the level of defined eligible receivables less defined customary reductions for servicing, dilution and loss reserves. The Company's retained interest in accounts receivable held by SFC, which is in the form of a subordinated note, represents an overcollateralization of any undivided interest sold. This retained interest totaled $436.2 million and $347.1 million at December 31, 2006 and 2005, respectively.

Inventories: Inventories are stated at the lower of cost or market. Cost for approximately 79% of inventories is determined using the first-in, first-out (FIFO) cost method. Cost for certain domestic inventories is determined using the last-in, first-out (LIFO) cost method. The FIFO cost for all inventories approximates replacement cost.

The Company maintains reserves for excess and obsolete inventory resulting from the potential inability to sell its products at prices in excess of current carrying costs. The markets in which the Company operates are highly competitive, and new products and surgical procedures are introduced on an ongoing basis. Such marketplace changes may cause some of the Company's products to become obsolete. The Company makes estimates regarding the future recoverability of the costs of these products and records a provision for excess and obsolete inventories based on historical experience, expiration of sterilization dates and expected future trends.

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

Goodwill and Other Intangible Assets: Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts allocated to other intangible assets. Other intangible assets include developed technology, which is amortized on a straight-line basis over 20 years, and customer relationships (which reflect expected continued customer patronage), trademarks and patents, which are amortized on a straight-line basis over 4 to 40 years (weighted-average life of 14 years for other intangible assets).

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

Stock Options: At December 31, 2006, the Company had key employee and director stock option plans, which are described more fully in Note 7. Effective January 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 123 (revised), *Share-Based Payment*. The revised Statement

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requires companies to measure the cost of employee stock options based on the grant-date fair value and recognize that cost over the period during which a recipient is required to provide services in exchange for the options, typically the vesting period. The Company adopted the provisions of the revised Statement using the modified-retrospective transition method provided in the revised Statement. Under this method, the Company restated all prior periods presented on a consistent basis, based on the pro forma expense previously disclosed.

As a result of the adoption of the revised Statement, the Company's operating income for the years ended December 31, 2006, 2005 and 2004 was reduced by $56.2 million, $48.7 million and $38.9 million, respectively, and

the Company's net earnings for the same periods were reduced by $36.5 million, $31.6 million and $25.7 million, respectively. Basic and diluted net earnings per share for the years ended December 31, 2006, 2005 and 2004 were reduced by $.09, $.08 and $.06, respectively. In addition, prior period balance sheets were adjusted to reflect the cumulative impact of stock option compensation expense and stock option exercise activity as required by the modified-retrospective transition method. The consolidated balance sheet at December 31, 2005 was adjusted to reflect decreases in retained earnings and deferred stock-based compensation of $125.7 million and $1.6 million, respectively, and increases in the balances of additional paid-in capital and noncurrent deferred income tax assets of $172.5 million and $48.4 million, respectively.

Prior to the adoption of the revised Statement, the Company presented all of the income tax benefits resulting from the exercise of stock options as cash flows provided by operating activities in the consolidated statements of cash flows. The revised Statement requires the income tax benefit from deductions, resulting from the exercise of stock options, in excess of the compensation cost recognized (excess income tax benefit) to be classified as cash flows provided by financing activities. Excess income tax benefit from exercise of stock options reported as cash flows provided by financing activities for the years ended December 31, 2006, 2005 and 2004, respectively, would have been classified as cash flows provided by operating activities if the Company had not adopted the provisions of the revised Statement.

The weighted-average fair value per share of options granted during 2006, 2005 and 2004, estimated on the date of grant using the Black-Scholes option pricing model, was $17.16, $17.45 and $16.83, respectively. The fair value of options granted was estimated using the following weighted-average assumptions:

	2006	2005	2004
Risk-free interest rate	4.6%	2.9%	1.9%
Expected dividend yield	0.2%	0.2%	0.2%
Expected stock price volatility	24.8%	30.7%	34.3%
Expected option life	7.0 years	6.5 years	6.5 years

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

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

The Company operates in multiple tax jurisdictions both inside and outside the United States and tax authorities in these jurisdictions regularly perform audits of the Company's tax filings. Accordingly, management must determine the appropriate allocation of income to each of these jurisdictions based on current interpretations of complex income tax regulations. Tax audits associated with the allocation of this income and other complex issues, including inventory transfer pricing and product royalty arrangements, may require an extended period of time to resolve and may result in income tax adjustments if changes to the income allocation are required between jurisdictions with different tax rates. Because tax adjustments in certain jurisdictions can be significant, the

Company records accruals representing management's best estimate of the probable resolution of these matters. These income tax accruals are included within the income taxes liability in the consolidated balance sheets. To the extent additional information becomes available, such accruals are adjusted to reflect the revised estimated probable outcome.

Derivative Financial Instruments: The Company follows the provisions of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statements No. 137 and No. 138, in accounting for its derivative financial instruments. The Statements require the Company to recognize all derivatives on the balance sheet at fair value. The Company uses derivative financial instruments to manage the economic impact of fluctuations in currency exchange rates. The Company enters into forward currency exchange contracts to manage these economic risks. These contracts are adjusted to fair value through earnings.

Legal and Other Contingencies: The Company is involved in various proceedings, legal actions and claims arising in the normal course of business, including proceedings related to product, labor, intellectual property and other matters. The potential future outcomes of these matters are outside of management's complete control and will generally not be known for prolonged periods of time. In certain of the legal proceedings, the claimants seek damages, as well as other compensatory relief, which could result in the payment of significant claims and settlements. In legal matters for which management has sufficient information to reasonably estimate the Company's future obligations, a liability representing management's best estimate of the probable cost for the resolution of these legal matters is recorded. The estimates are based on consultation with legal counsel, previous settlement experience and settlement strategies.

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

	Unrealized Gains (Losses) on Securities	Unfunded Pension Gains (Losses)	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Gain (Loss)
Balances at January 1, 2005	$(0.7)	$(10.9)	$209.9	$198.3
Other comprehensive gain (loss) for 2005	0.6	(0.8)	(192.9)	(193.1)
Balances at December 31, 2005	(0.1)	(11.7)	17.0	5.2
Other comprehensive gain (loss) for 2006	(0.9)	2.6	102.6	104.3
Adjustments to adopt FASB Statement No. 158, net of income tax benefit	--	(18.9)	--	(18.9)
Balances at December 31, 2006	$(1.0)	$(28.0)	$119.6	$90.6

On December 31, 2006, the Company adopted the provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. The Statement requires an entity to recognize, on its balance sheet, an asset or liability reflecting the funded status of defined benefit postretirement plans as the difference between the projected benefit obligation and fair value of plan assets with changes continuing to be reflected in the accumulated other comprehensive gain (loss) component of shareholders' equity net of related income taxes. This Statement does not change the calculation of the amount of net periodic benefit cost included in net earnings. As a result of the adoption of the Statement, the funded status of the Company's defined benefit pension plans resulted in the recognition, in the Company's December 31, 2006 consolidated balance sheet, of an additional $22.8 million liability with corresponding changes in accumulated other comprehensive gain (loss) and deferred income taxes. The adoption of the Statement did not require a restatement of prior periods. Additional information regarding the adoption of this Statement is provided in Note 9.

Recently Issued Accounting Standards: In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*. This Interpretation clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the Company's Consolidated Financial Statements. The Interpretation also provides guidance for the measurement and classification of tax positions, interest and penalties, and requires additional disclosure on an annual basis. The Company plans to adopt the provisions of the Interpretation effective January 1, 2007, as required. The Company has not yet determined the effect the adoption of the Interpretation will have on the financial position of the Company but does not anticipate a material impact. Any difference between the amounts recognized in the Company's Consolidated Financial Statements prior to the adoption of the Interpretation and the amounts reported after the adoption will be accounted for as a cumulative-effect adjustment recorded in the beginning balance of retained earnings on January 1, 2007 and will not require restatement of prior periods.

Reclassifications: Certain prior year amounts have been reclassified to conform with the presentation used in 2006.

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NOTE 2
FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

	Cost	Gross Unrealized Losses	Estimated Fair Value
At December 31, 2006:			
Available-for-sale securities:			
Corporate and asset-backed debt securities	$515.3	$(0.6)	$514.7
U.S. treasury debt securities	245.0	(0.7)	244.3
Certificates of deposit	131.9	(0.1)	131.8
U.S. agency debt securities	61.5	--	61.5
Municipal debt securities	22.0	--	22.0
Other	23.9	--	23.9
Total available-for-sale securities	999.6	(1.4)	998.2
Trading securities:			
Mutual funds	29.7	--	29.7
Total investments	$1,029.3	$(1.4)	$1,027.9
Reported as:			
Current assets -- Marketable securities			$998.2
Noncurrent assets -- Other			29.7
			$1,027.9
At December 31, 2005:			
Available-for-sale securities:			
Municipal debt securities	$468.1	$(0.1)	$468.0
U.S. treasury debt securities	79.7	--	79.7
U.S. agency debt securities	9.6	--	9.6
Certificates of deposit	8.0	--	8.0

Total available-for-sale securities	565.4	(0.1)	565.3
Trading securities:			
Mutual funds	23.1	--	23.1
Total investments	$588.5	$(0.1)	$588.4
Reported as:			
Current assets -- Marketable securities			$565.3
Noncurrent assets -- Other			23.1
			$588.4

The net carrying value and estimated fair value of available-for-sale debt securities at December 31, 2006, by contractual maturity, are as follows (in millions):

	Cost	Estimated Fair Value
At December 31, 2006:		
Due in one year or less	$457.0	$456.1
Due after one year through three years	541.2	540.7
Due after three years	1.4	1.4
	$999.6	$998.2

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Interest and marketable securities income, which is included in other income (expense), totaled $41.4 million in 2006, $13.3 million in 2005 and $4.7 million in 2004.

The Company enters into forward currency exchange contracts to mitigate the impact of currency fluctuations on transactions denominated in nonfunctional currencies, thereby limiting risk to the Company that would otherwise result from changes in exchange rates. These nonfunctional currency exposures relate principally to intercompany receivables and payables arising from intercompany transactions, including purchases of manufactured products. The periods of the forward currency exchange contracts correspond to the periods of the exposed transactions, with realized gains and losses included in the measurement and recording of transactions denominated in the nonfunctional currencies. All forward currency exchange contracts are marked-to-market each period with resulting gains (losses) included in other income (expense) in the consolidated statements of earnings.

At December 31, 2006, the Company had outstanding forward currency exchange contracts to purchase $387.9 million and sell $227.0 million of various currencies (principally United States dollars and euros) with maturities ranging principally from 7 to 180 days. At December 31, 2005, the Company had outstanding forward currency exchange contracts to purchase $217.6 million and sell $196.1 million of various currencies (principally United States dollars and euros) with maturities ranging principally from 7 to 180 days. The estimated fair value of forward currency exchange contracts represents the measurement of the contracts at month-end spot rates as adjusted by current forward points and is recorded as a component of accrued expenses and other liabilities in the consolidated balance sheets. At December 31, 2006, the Company is exposed to credit loss in the event of nonperformance by counterparties on its outstanding forward currency exchange contracts but does not anticipate nonperformance by any of the counterparties.

NOTE 3
INVENTORIES

Inventories are summarized as follows (in millions):

	December 31	
	2006	2005
Finished goods	$506.2	$414.9
Work-in-process	76.0	65.4
Raw material	98.8	87.0
FIFO cost	681.0	567.3
Less LIFO reserve	3.4	3.8
	$677.6	$563.5

NOTE 4
ACQUISITIONS

In the first quarter of 2006, the Company acquired all of the outstanding stock of Sightline Technologies Ltd. (Sightline), a private, development-stage company, for an upfront payment of $50.0 million in cash plus certain transaction costs and the assumption of certain liabilities. The acquisition of Sightline, a developer of flexible endoscopes, is expected to enhance the Company's presence in the gastrointestinal and other markets within its MedSurg Equipment segment. Sightline's operating results are included in the Company's Consolidated Financial Statements from the date of the acquisition and did not materially impact the Company's operating results. Pro forma consolidated results of operations would not differ significantly as a result of the Sightline acquisition.

The purchase price was preliminarily allocated to assets acquired, purchased in-process research and development and liabilities assumed based on their estimated fair value at the date of acquisition. The amount of the purchase price allocated to purchased in-process research and development resulted in a charge of $52.7

million, or $.13 per diluted share, against the Company's operating results. At the date of the acquisition, the flexible endoscope technologies acquired had not yet reached technological feasibility. The amount written off as purchased in-process research and development was not deductible for income tax purposes in the United States.

Terms of the transaction also include potential milestone payments of up to an additional $90.0 million upon the achievement of certain operational and financial targets related to Sightline's products, the first of which is expected to occur in 2007. The potential milestone payments are expected to be capitalized at their fair values as intangible assets at the time of payment and will be amortized over their remaining useful lives.

In the fourth quarter of 2005, the Company acquired, by merger, all of the outstanding stock of PlasmaSol Corp. (PlasmaSol), a private, development-stage company. PlasmaSol is a developer of a technology that should allow Stryker to provide sterilization equipment for use with certain of its MedSurg Equipment products. The cost of the transaction totaled $17.5 million including an upfront cash payment plus the assumption of certain liabilities. PlasmaSol's operating results are included in the Company's Consolidated Financial Statements from the date of the acquisition and did not materially impact the Company's operating results. Pro forma consolidated results of operations would not differ significantly as a result of the PlasmaSol acquisition.

The purchase price was allocated to assets acquired primarily for deferred income tax assets associated with acquired net operating losses and purchased in-process research and development based on their estimated fair value at the date of acquisition. The amount of the purchase price allocated to purchased in-process research and development resulted

in a charge of $15.9 million, or $.04 per diluted share, against the Company's 2005 operating results. At the date of acquisition, the sterilization technology acquired had not yet been approved for sale by the United States Food and Drug Administration (FDA) and, therefore, had not yet reached technological feasibility. The amount written off as purchased in-process research and development was not deductible for income tax purposes in the United States.

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

The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. Based on the purchase price allocation, $22.0 million was allocated to identifiable intangibles, to be amortized over their remaining lives of 5 to 8 years, and $30.2 million was allocated to goodwill, which was not deductible for income tax purposes in the United States. Immediately after the acquisition was consummated, management of the Company began to implement an integration plan to combine Stryker and eTrauma. In conjunction with the integration plan, the Company recorded additional purchase liabilities for severance and related costs of $0.3 million, which were included in the purchase price allocation.

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

The purchase price was allocated to assets acquired, purchased in-process research and development and liabilities assumed based on their estimated fair value at the date of acquisition. The amount of the purchase price allocated to purchased in-process research and development resulted in a charge of $120.8 million, or $.30 per diluted share, against the Company's 2004 operating results. At the date of the transaction, the spinal disc implant

technologies acquired were in preliminary stages of clinical studies in the United States and had not yet reached technological feasibility. The amount written off as purchased in-process research and development was not deductible for income tax purposes in the United States.

Terms of the transaction also include potential milestone and royalty payments of up to an additional $240.0 million upon commercialization of SpineCore's products in the United States, which is not expected to occur before 2008. The potential milestone payments are expected to be capitalized at their fair values as intangible assets at the time of payment and will be amortized over their remaining useful lives.

The Company believes that the technologies acquired in the Sightline, PlasmaSol and SpineCore acquisitions will result in the introduction of new products and additional future sales. However, factors including regulatory delays, safety concerns or patent disputes could delay the introduction or marketing of these potential new products. Additionally, unanticipated issues may arise during current and future clinical trials that could delay or terminate a product's development prior to regulatory approval. The Company may experience an unfavorable impact on its

operating results if it is unable to capitalize on those efforts by attaining the proper FDA approval. As of December 31, 2006, the Company had not encountered significant issues and expects completion of the development and initial commercialization of the flexible endoscope technologies in 2007 and both the sterilization technologies and spinal disc implant technologies in 2008.

NOTE 5

GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the net carrying amount of goodwill by segment for the years ended December 31, 2006 and 2005 are as follows (in millions):

	Orthopaedic Implants	MedSurg Equipment	Other	Total
Balances as of January 1, 2005	$469.4	$18.8	$18.1	$506.3
Goodwill acquired	--	31.6	3.0	34.6
Foreign currency translation effects	(25.2)	(0.3)	--	(25.5)
Other	--	--	(2.2)	(2.2)
Balances as of December 31, 2005	444.2	50.1	18.9	513.2
Goodwill acquired	--	--	1.8	1.8
Foreign currency translation effects	18.0	0.2	--	18.2
Other	--	(1.4)	(0.5)	(1.9)
Balances as of December 31, 2006	$462.2	$48.9	$20.2	$531.3

In the fourth quarters of 2006 and 2005, the Company completed the required annual impairment tests of goodwill as prescribed by FASB Statement No. 142, *Goodwill and Other Intangible Assets*, and determined, in all instances, that recorded goodwill was not impaired and that no goodwill write-down was necessary.

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

	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
At December 31, 2006:			
Amortized intangible assets:			
Developed technology	$260.7	$105.0	$155.7
Customer relationships	172.4	40.2	132.2
Patents	181.7	93.1	88.6
Trademarks	37.0	20.5	16.5
Other	39.9	27.2	12.7
	$691.7	$286.0	$405.7

At December 31, 2005:			
Amortized intangible assets:			
Developed technology	$244.9	$84.7	$160.2
Customer relationships	163.8	32.8	131.0
Patents	169.7	78.7	91.0
Trademarks	35.7	18.2	17.5
Other	33.1	23.1	10.0
	$647.2	$237.5	$409.7

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

2007	$39.7
2008	$39.3
2009	$38.4
2010	$31.3
2011	$24.0

NOTE 6
LONG-TERM DEBT

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

	December 31	
	2006	2005
Unsecured Credit Facility	$--	$224.8
Other	14.8	6.8
	14.8	231.6
Less current maturities	14.8	47.4
	$--	$184.2

The Company has established a $1,000.0 million Unsecured Credit Facility. The facility, which expires in November 2010, includes a senior 5-year nonamortizing, revolving credit agreement with a maximum amount of $1,000.0 million. The Company may increase the credit facility maximum limit in $100.0 million increments up to an additional $500.0 million upon acceptance by the existing lender group or additional lenders.

The Unsecured Credit Facility requires a facility fee ranging from 0.04% to 0.15% on the aggregate commitment of the credit facility, depending on the Company's debt rating. The credit facility includes a $500.0 million multicurrency sublimit, under which yen and euro can be borrowed; a $100.0 million swing line sublimit;

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and a $100.0 million letter of credit sublimit. The credit facility bears interest at a base rate, as defined, plus an applicable margin ranging from 0.12% to 0.475%, depending on the Company's debt rating.

During 2006, the weighted-average interest rate, excluding required fees, for all borrowings under the credit facility was 2.9%. The Unsecured Credit Facility requires the Company to comply with certain financial and other covenants. The Company was in compliance with all covenants at December 31, 2006. In addition to the Unsecured Credit Facility, the Company has lines of credit, issued by various financial institutions, available to fund the

Company's day-to-day operating needs. At December 31, 2006, the Company had $1,028.1 million of additional borrowing capacity available under all of its existing credit facilities.

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

Interest paid on debt, including required fees, was $6.3 million in 2006, $8.1 million in 2005 and $6.0 million in 2004; these amounts are reflected in interest expense, which is included in other income (expense).

NOTE 7

CAPITAL STOCK

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

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

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

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

	Shares (in millions)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Options outstanding at January 1, 2006	24.2	$28.78		
Granted	4.8	46.84		
Exercised	(3.1)	16.57		
Cancelled	(0.5)	42.93		
Options outstanding at December 31, 2006	25.4	$33.35	6.1	$551.9
Exercisable at December 31, 2006	14.5	$24.75	4.6	$439.0
Options expected to vest	10.3	$44.56	8.1	$108.9

The aggregate intrinsic value, which represents the cumulative difference between the fair market value of the underlying common stock and the option exercise prices, of options exercised during the years ended December 31, 2006, 2005 and 2004 was $100.0 million, $100.5 million and $115.8 million, respectively. The

total grant-date fair value of shares vested during the years ended December 31, 2006, 2005 and 2004 was $46.4 million, $43.1 million and $39.5 million, respectively. Shares reserved for future compensation grants of Stryker common stock were 25.9 million at December 31, 2006. Option shares reserved for future grants were 10.1 million at December 31, 2005. Exercise prices for options outstanding as of December 31, 2006 ranged from $7.10 to $52.73. At December 31, 2006, there was $136.0 million of unrecognized compensation cost related to nonvested stock options granted under the stock option plans; that cost is expected to be recognized over the following 8.2 years (weighted-average period of 1.9 years).

NOTE 8
NET EARNINGS PER SHARE

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

	2006	2005	2004
Net earnings	$777.7	$643.6	$440.0
Weighted-average shares outstanding for basic net earnings per share	406.5	403.7	401.2
Effect of dilutive employee stock options	5.3	7.1	8.1
Adjusted weighted-average shares outstanding for diluted net earnings per share	411.8	410.8	409.3
Net earnings per share of common stock:			
Basic	$1.91	$1.59	$1.10
Diluted	$1.89	$1.57	$1.08

Options to purchase an average of 4.5 million and 2.5 million shares of common stock during the years ended December 31, 2006 and 2005, respectively, were outstanding but were not included in the computation of diluted net earnings per share because the exercise prices of the options were greater than the average market price of common shares for those periods.

NOTE 9
RETIREMENT PLANS

Certain of the Company's subsidiaries have both funded and unfunded defined benefit pension plans covering some or all of their employees. All of the defined benefit pension plans have projected benefit obligations in excess of plan assets. As discussed in Note 1, the Company adopted the provisions of FASB Statement No. 158 as of December 31, 2006. The adoption of the Statement did not require a restatement of prior periods Substantially all of the defined

benefit pension plans use a December 31 measurement date for the determination of plan obligations and funded status of the plans. A summary of the Company's defined benefit pension plans is as follows (in millions):

	December 31	
	2006	2005
Change in projected benefit obligations:		
Projected benefit obligations at beginning of year	$156.8	$145.3
Service cost	10.7	8.6
Interest cost	6.9	6.4
Foreign exchange impact	12.4	(14.1)
Employee contributions	0.8	0.6
Actuarial losses (gains)	(0.2)	15.1
Benefits paid	(5.0)	(5.1)
Projected benefit obligations at end of year	182.4	156.8
Change in plan assets:		
Fair value of plan assets at beginning of year	91.6	78.7
Actual return	9.7	10.3
Employer contributions	6.4	13.2
Employee contributions	0.8	0.6
Foreign exchange impact	6.2	(6.7)
Benefits paid	(4.5)	(4.5)
Fair value of plan assets at end of year	110.2	91.6
Funded status at end of year	$(72.2)	$(65.2)
Weighted-average assumptions as of December 31:		
Discount rate	4.5%	4.3%
Expected return on plan assets	6.3%	6.3%
Rate of compensation increase	3.1%	3.1%

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

	December 31	
	2006	2005
Noncurrent assets - Other	$--	$1.5
Current liabilities - Accrued compensation	(0.8)	(6.3)
Noncurrent liabilities - Other liabilities	(71.4)	(38.7)
	$(72.2)	$(43.5)

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

	December 31	
	2006	2005
Unrecognized net actuarial loss	$(13.0)	$(17.1)
Adjustments to adopt FASB Statement No. 158:		
Additional unrecognized net actuarial loss	(21.6)	--

Unrecognized prior service cost	(0.9)	--
Unrecognized transition amount	(0.3)	--
	$(35.8)	$(17.1)

The accumulated benefit obligation for all of the defined benefit pension plans was $158.2 million and $133.6 million as of December 31, 2006 and 2005, respectively. Pension plans with an accumulated benefit obligation in excess of plan assets had projected benefit obligations, accumulated benefit obligations and fair value of plan assets of $146.2 million, $129.5 million and $80.2 million, respectively, as of December 31, 2006 and $129.1 million, $112.6 million and $68.4 million, respectively, as of December 31, 2005.

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

	2006	2005	2004
Net periodic benefit cost:			
Service cost	$(10.9)	$(8.8)	$(6.6)
Interest cost	(6.9)	(6.3)	(5.6)
Expected return on plan assets	6.0	5.1	4.1
Amortization of prior service cost and transition amount	(0.2)	(0.2)	(0.2)
Recognized actuarial loss	(1.4)	(0.9)	(0.5)
Net periodic benefit cost	(13.4)	(11.1)	(8.8)
Other changes in plan assets and benefit obligations recognized in accumulated other comprehensive gain (loss):			
Net actuarial gain (loss)	2.7	(2.9)	(4.9)
Recognized actuarial loss	1.4	0.9	0.5
Adjustments to adopt FASB Statement No. 158:			
Recognized actuarial loss	(21.6)	--	--
Prior service cost	(0.9)	--	--
Transition amount	(0.3)	--	--
Total recognized in accumulated other comprehensive gain (loss)	(18.7)	(2.0)	(4.4)
Total recognized in net periodic benefit cost and accumulated other comprehensive gain (loss)	$(32.1)	$(13.1)	$(13.2)

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The estimated net actuarial loss and amortization of prior service cost and transition amount for the defined benefit pension plans to be recognized from accumulated other comprehensive income into net period benefit cost in the year ended December 31, 2007, are $1.8 million and $0.2 million, respectively.

The Company has assumed an average long-term expected return on defined benefit plan assets of 6.3% as of December 31, 2006. The expected return is determined by applying the target allocation in each asset category of plan investments to the anticipated return for each asset category based on historical and projected returns.

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

	December 31	
	2006	2005

Equity securities	65%	65%
Debt securities	29	30
Other	6	5
	100%	100%

The investment strategy for the Company's defined benefit pension plans is both to meet the liabilities of the plans as they fall due and to maximize the return on invested assets within appropriate risk tolerances. Reflected below are target investment allocation ranges for the plans at December 31, 2006:

	Low		High
Equity Securities	56%	-	73%
Debt securities	26	-	41
Other	2	-	8

The Company anticipates contributing approximately $8.2 million to its defined benefit pension plans in 2007.

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

	2007	2008	2009	2010	2011	2012-2016
Expected benefit payments	$4.8	$5.0	$5.7	$6.2	$6.0	$40.2

Retirement plan expense under the Company's defined contribution retirement plans totaled $73.4 million in 2006, $64.5 million in 2005 and $61.1 million in 2004. A portion of the Company's retirement plan expenses was funded with Stryker common stock totaling $7.0 million in 2006, $6.3 million in 2005 and $5.4 million in 2004. The use of Stryker common stock represents a noncash operating activity that is not reflected in the consolidated statements of cash flows. The amount of Stryker common stock held by the Company's defined contribution retirement plans totaled $86.2 million (approximately 1.6 million shares) and $71.2 million (approximately 1.6 million shares) as of December 31, 2006 and 2005, respectively. The value of Stryker common stock as a percentage of total defined contribution retirement plan assets was 13% as of both December 31, 2006 and 2005.

NOTE 10
INCOME TAXES

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

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

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

	2006	2005	2004
United States operations	$547.5	$369.9	$201.8
Foreign operations	556.3	584.7	476.3
	$1,103.8	$954.6	$678.1

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

	2006	2005	2004
Current income tax expense:			
Federal	$235.4	$173.0	$151.0
State	29.8	27.3	17.9
Foreign	88.0	102.8	141.9
	353.2	303.1	310.8
Deferred income tax expense (credit)	(27.1)	7.9	(72.7)
	$326.1	$311.0	$238.1

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

	2006	2005	2004
United States statutory income tax rate	35.0%	35.0%	35.0%
Add (deduct):			
State taxes, less effect of federal deduction	2.1	2.5	1.9
Tax benefit relating to operations in Ireland and Puerto Rico	(9.1)	(9.8)	(9.8)
Nondeductible purchased in-process research and development	1.7	0.6	6.2
Nondeductible permanent differences	1.3	1.9	3.0
United States income taxes on repatriation of foreign earnings	--	2.9	--
Foreign income taxes at rates different from the United States statutory rate	(0.3)	0.6	(0.7)
Other	(1.2)	(1.1)	(0.5)
	29.5%	32.6%	35.1%

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

	December 31	
	2006	2005
Deferred income tax assets:		
Inventories	$278.6	$255.5
Accounts receivable and other assets	20.1	20.7
Other accrued expenses	110.7	87.8
Depreciation and amortization	24.5	24.2
State taxes	15.0	15.0
Net operating loss carryforwards	23.3	16.2
Other	78.0	66.0
Total deferred income tax assets	550.2	485.4
Less valuation allowance	(14.4)	(11.2)
Total deferred income tax assets after valuation allowances	535.8	474.2
Deferred income tax liabilities:		
Depreciation and amortization	(139.7)	(118.5)
Other accrued expenses	(12.4)	(11.6)
Other	(14.2)	(10.5)
Total deferred income tax liabilities	(166.3)	(140.6)
Total net deferred income tax assets	$369.5	$333.6

Net operating loss carryforwards totaling approximately $47.6 million at December 31, 2006 are available to reduce future taxable earnings of certain domestic and foreign subsidiaries.

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

	December 31	
	2006	2005
Current assets -- Deferred income taxes	$417.2	$383.1
Noncurrent assets -- Deferred income taxes	118.6	91.1
Current liabilities -- Accrued expenses and other liabilities	(38.1)	(35.8)
Noncurrent liabilities -- Other liabilities	(128.2)	(104.8)
Total net deferred income tax assets	$369.5	$333.6

At December 31, 2006, tax authorities in several tax jurisdictions both inside and outside the United States were conducting routine audits of the Company's income tax returns filed in prior years. These audits are generally designed to determine if individual tax authorities are in agreement with the Company's interpretations of complex income tax regulations regarding the allocation of income to the various tax jurisdictions. During 2006, the Company did not reach resolution on any significant outstanding tax audit and, therefore, increased its income tax accruals by $19.7 million for the Company's best estimate of the probable resolution of these tax positions.

No provision has been made for United States federal and state income taxes or foreign income taxes that may result from future remittances of the undistributed earnings ($1,772.8 million at December 31, 2006) 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.

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Total income taxes paid, net of refunds received, were $325.6 million in 2006, $247.8 million in 2005 and $235.8 million in 2004.

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, spinal and craniomaxillofacial implant systems; bone cement; and the bone growth factor OP-1. The MedSurg Equipment segment sells surgical equipment; surgical navigation systems; endoscopic, communications and digital imaging systems; as well as patient handling and emergency medical equipment. The Other category includes Physical Therapy Services and corporate administration, interest expense and interest and marketable securities income.

Effective January 1, 2006, the Company changed its business segment reporting to include the financial results of certain products within its MedSurg Equipment segment rather than within its Orthopaedic Implants segment. The Company believes these products are better aggregated with its other MedSurg Equipment products based on similarities in manufacturing and marketing practices and customer base. Prior year results have been reclassified to correspond with this change in reporting.

The Company's reportable segments are business units that offer different products and services and are managed separately because each business requires different manufacturing, technology and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company measures the financial results of its reportable segments using an internal performance measure that excludes the purchased in-process research and development charges recognized in 2006, 2005 and 2004, the additional income taxes on the repatriation of foreign earnings recognized in 2005 as well as the effect of share-based compensation, which includes compensation related to both employee and director stock option plans and restricted stock grants. Identifiable assets are those assets used exclusively in the operations of each business segment or are allocated when used jointly. Corporate assets are principally cash and cash equivalents; marketable securities; and property, plant and equipment.

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

	Orthopaedic Implants	MedSurg Equipment	Other	Total
Year ended December 31, 2006				
Net sales	$3,110.1	$2,037.1	$258.4	$5,405.6
Interest and marketable securities income	--	--	41.4	41.4
Interest expense	--	--	9.5	9.5
Depreciation and amortization expense	267.9	53.0	10.9	331.8
Income taxes (credit)	238.6	109.6	(2.2)	346.0
Segment net earnings (loss)	564.1	317.1	(13.8)	867.4
Less purchased in-process research and development				52.7
Less share-based compensation, net of income tax benefit				37.0
Net earnings				777.7
Total assets	3,576.1	1,103.3	1,194.4	5,873.8
Capital expenditures	134.9	53.3	29.3	217.5
Year ended December 31, 2005				
Net sales	2,849.5	1,759.4	262.6	4,871.5
Interest and marketable securities income	--	--	13.3	13.3
Interest expense	--	--	7.7	7.7
Depreciation and amortization expense	230.0	49.6	10.3	289.9
Income taxes (credit)	206.7	101.3	(7.1)	300.9
Segment net earnings (loss)	464.8	272.6	(18.4)	719.0
Less purchased in-process research and development				15.9
Less share-based compensation, net of income tax benefit				32.1
Less income taxes on repatriation of foreign earnings				27.4
Net earnings				643.6
Total assets	2,988.8	874.7	1,129.0	4,992.5
Capital expenditures	183.5	69.9	18.3	271.7
Year ended December 31, 2004				
Net sales	2,556.2	1,461.2	244.9	4,262.3
Interest income	--	--	4.7	4.7
Interest expense	--	--	6.8	6.8
Depreciation and amortization expense	196.1	40.0	14.8	250.9
Income taxes (credit)	190.2	79.4	(18.1)	251.5
Segment net earnings (loss)	409.9	209.1	(32.0)	587.0
Less purchased in-process research and development				120.8
Less share-based compensation, net of income tax benefit				26.2
Net earnings				440.0
Total assets	2,906.0	698.4	515.6	4,120.0
Capital expenditures	127.9	52.1	7.8	187.8

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

	Net Sales	Long-Lived Assets
Year ended December 31, 2006		
United States	$3,556.8	$1,321.1
Europe	972.4	701.8
Japan	364.5	101.5
Other foreign countries	511.9	96.5
	$5,405.6	$2,220.9
Year ended December 31, 2005		
United States	$3,165.6	$1,220.0
Europe	891.1	627.7
Japan	380.1	99.0
Other foreign countries	434.7	84.6
	$4,871.5	$2,031.3
Year ended December 31, 2004		
United States	$2,753.0	$1,038.6
Europe	780.2	695.0
Japan	351.5	112.3
Other foreign countries	377.6	56.7
	$4,262.3	$1,902.6

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 (in millions):

2007	$62.1
2008	51.3
2009	38.5
2010	22.7
2011	13.3
Thereafter	25.4
	$213.3

Rent expense totaled $94.7 million in 2006, $85.3 million in 2005 and $79.9 million in 2004.

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

In December 2003, the Company announced that its subsidiary Physiotherapy Associates, Inc., and Stryker received a subpoena from the United States Attorney's Office in Boston, Massachusetts, in connection with a United States Department of Justice investigation of Physiotherapy Associates' billing and coding practices. In March 2005, the Company announced that it received a subpoena from the United States Department of Justice requesting documents for the period January 2002 through the present relating to "any and all consulting contracts, professional service agreements, or remuneration agreements between Stryker Corporation and any orthopedic surgeon, orthopedic surgeon in training, or medical school graduate using or considering the surgical use of hip or knee joint replacement/reconstruction products manufactured or sold by Stryker Corporation." In June 2006, the Company announced that it received a subpoena from the United States Department of Justice, Antitrust Division requesting documents for the period January 2001 through the present regarding possible violations of federal criminal law, including possible violation of the antitrust laws, relating to the manufacture and sale of orthopaedic implant devices. The Company is fully cooperating with the Department of Justice regarding these matters.

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

SUMMARY OF QUARTERLY DATA (UNAUDITED)
Stryker Corporation and Subsidiaries
(in millions, except per share amounts)

	2006 Quarter Ended				2005 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Net sales	$1,320.9	$1,327.9	$1,294.0	$1,462.8	$1,202.5	$1,218.6	$1,171.9	$1,278.5
Gross profit	868.0	875.4	852.3	961.2	772.5	795.5	754.6	830.4
Earnings before income taxes	227.3	296.6	262.4	317.5	235.8	251.3	214.3	253.2
Net earnings	147.5	213.9	188.4	227.9	166.7	177.8	120.7	178.4
Net earnings per share of common stock:								
Basic	.36	.53	.46	.56	.41	.44	.30	.44
Diluted	.36	.52	.46	.55	.41	.43	.29	.43
Market price of common stock:								
High	50.90	47.75	51.00	55.92	52.64	50.95	56.32	49.74
Low	43.77	40.77	42.06	48.83	43.00	43.51	46.80	39.74

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

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures - An evaluation of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2006 was carried out under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and the Vice President and Chief Financial Officer (the "Certifying Officers"). Based on that evaluation, the Certifying Officers concluded that the Company's disclosure controls and procedures are effective. There was no change to the Company's internal control over financial reporting during the period ended December 31, 2006 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Stryker Corporation's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 under the supervision and with the participation of the Certifying Officers. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control--Integrated Framework*. Based on that assessment, management believes that, as of December 31, 2006, the Company's internal control over financial reporting is effective.

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

Other Matters - The Company has begun the process of implementing new Enterprise Resource Planning (ERP) systems at certain of its divisions. An ERP system is a fully-integrated set of programs and databases that incorporate order processing, production planning and scheduling, purchasing, accounts receivable and inventory management and accounting. During the first quarter of 2006, the Company's Orthopaedics and Spine divisions began to transition to their new ERP systems. The Company's Endoscopy division began to transition to its new ERP system in the third quarter of 2006. In connection with these ERP system implementations, the Company will update its internal controls over financial reporting, as necessary, to accommodate modifications to its business processes and accounting procedures. The Company does not believe that these ERP system implementations will have an adverse effect on the Company's internal control over financial reporting.

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

The Board of Directors and Shareholders of Stryker Corporation:

We have audited management's assessment, included in the accompanying Management Report on Internal Control over Financial Reporting, that Stryker Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Stryker Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of Stryker Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining

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

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

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

In our opinion, management's assessment that Stryker Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Stryker Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Stryker Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006, and our report dated February 2, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Grand Rapids, Michigan

February 2, 2007

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding the directors of the Company and certain corporate governance and other matters appearing under the captions "Information About the Board of Directors and Corporate Governance Matters," "Proposal 1 - Election of Directors," "Audit Committee" and "Additional Information - Section 16(a) Beneficial Ownership Reporting Compliance" in the 2007 proxy statement is incorporated herein by reference.

Information regarding the executive officers of the Company appears below. All officers are appointed annually. Reported ages are as of January 31, 2007.

Stephen P. MacMillan, age 43, was appointed President and Chief Operating Officer of the Company in June 2003 and Chief Executive Officer as of January 1, 2005. Prior to joining the Company, he was most recently Sector Vice President, Global Specialty Operations for Pharmacia Corporation, which he joined in 1999. Prior to Pharmacia, he spent 11 years at Johnson & Johnson ("J&J"), most recently as President of Johnson & Johnson-Merck Consumer Pharmaceuticals, a joint venture between J&J and Merck. Prior to joining J&J, he held various marketing positions at Procter & Gamble.

Dean H. Bergy, age 47, was appointed Vice President and Chief Financial Officer in January 2003 and was the Vice President, Finance of the Company since October 1998. He had previously been Vice President, Finance of the Stryker Medical division since October 1996 and Controller of the Company from June 1994. Prior to joining the Company in June 1994, he was a Senior Manager with Ernst & Young LLP.

Curtis E. Hall, age 50, was appointed Vice President and General Counsel of the Company in June, 2004. He had previously been General Counsel for the Company since 1994. Prior to joining the Company, he was a partner in the Michigan law firm of Miller, Canfield, Paddock and Stone, an Assistant United States Attorney in Washington, D.C. and an Assistant District Attorney in New York City.

Stephen Si Johnson, age 50, was appointed Vice President of the Company in February 2000 and was appointed Group President, MedSurg in September 1999. He had previously been President of Stryker Instruments since 1995. After joining the Company in 1980 he held various sales and marketing positions in the MedSurg Group and was appointed General Manager of Stryker Instruments in 1992 and Executive Vice President of Stryker Instruments in 1994.

James E. Kemler, age 49, was appointed Vice President of the Company and Group President, Stryker Biotech, Spine, Osteosynthesis and Development in August 2001. He had previously been President of Stryker Biotech since 1996 and General Manager of Stryker Biotech since October 1995. Prior to joining the Company in October 1995, he spent 11 years with Baxter International Inc. in a variety of marketing, manufacturing and financial management positions, which included three years at Baxter's German subsidiary.

Michael W. Rude, age 45, was appointed Vice President, Human Resources of the Company in July 2000. Prior to joining the Company, he served as Vice President of Human Resources for the SCIMED Division of Boston Scientific Corporation. Prior to that he held various positions as Vice President, Human Resources within The Dun & Bradstreet Corporation and spent eight years in various Human Resources positions at Baxter International, Inc.

Thomas R. Winkel, age 54, was appointed Vice President, Administration of the Company in December 1998 and Secretary of the Company in February 2005. He has been a Vice President of the Company since December 1984. He had previously been President of Stryker Americas/Middle East since March 1992 and Vice

President, Administration since June 1987. Since joining the Company in October 1978, he has held various other positions, including Assistant Controller and Controller.

The Corporate Governance Guidelines adopted by the Company's Board of Directors, as well as the charters of each of the Audit Committee, the Governance and Nominating Committee, the Compensation Committee and the Code of Ethics applicable to the principal executive officer, principal financial officer and principal accounting officer or controller or persons performing similar functions is available under the "For Investors - Corporate Governance" section of the Company's website at www.stryker.com. Print copies of such documents are available upon written request sent to the Secretary of the Company at 2825 Airview Boulevard, Kalamazoo, Michigan 49002.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding the compensation of the management of the Company appearing under the captions "Compensation Committee Report," "Executive Compensation" and "Director Compensation" in the 2007 proxy statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information under the caption "Stock Ownership" in the 2007 proxy statement is incorporated herein by reference.

At December 31, 2006, the Company had 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. These stock option plans were previously submitted to and approved by the Company's shareholders. Additional information regarding the Company's stock option plans appear in "Note 1 - Significant Accounting Polices" and "Note 7 - Capital Stock" on pages 45 through 49 and pages 55 through 56 of this report, respectively. At December 31, 2006, the Company also had a stock performance incentive award program pursuant to which shares of the Company's Common Stock have been and may be issued to certain employees with respect to performance in any calendar year through December 31, 2012. The status of these plans as of December 31, 2006 follows:

Plan category	Number of shares of Common Stock to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of shares of Common Stock remaining available for future issuance under equity compensation plans (excluding shares reflected in the first column)
Equity compensation plans approved by shareholders	25,370,100	$33.35	26,739,564

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information under the caption "Information About the Board of Directors and Corporate Governance Matters - Certain Relationships and Related Party Transactions" in the 2007 proxy statement is incorporated herein by reference.

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information under the captions "Information About the Board of Directors and Corporate Governance Matters - Independent Directors" and "Proposal 3 - Ratification of Appointment of Our Independent Registered Public Accounting Firm - Relationship with Ernst & Young" in the 2007 proxy statement is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements
The following Consolidated Financial Statements of the Company and its subsidiaries are set forth in Part II, Item 8 of this report.

Report of Independent Registered Public Accounting Firm on Financial Statements
Consolidated Balance Sheets as of December 31, 2006 and 2005
Consolidated Statements of Earnings for the Years Ended December 31, 2006, 2005 and 2004
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2006, 2005 and 2004
Consolidated Statements of Cash Flows for the Years Ended December 31, 2006, 2005 and 2004
Notes to Consolidated Financial Statements

(a) 2. Financial Statement Schedules

The consolidated financial statement schedule (Schedule II) of the Company and its subsidiaries has been submitted as a separate section of this report following the signature page. All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(a) 3. Exhibits

A list of exhibits required to be filed as part of this report is set forth in the Exhibit Index, which immediately precedes such exhibits, and is incorporated herein by reference.

(c)

Financial Statement Schedules
The consolidated financial statement schedule (Schedule II) of the Company and its subsidiaries has been submitted as a separate section of this report following the signature page. All other schedules for which
provision is made in the applicable accounting regulation of the Securities and Exchange Commission are
not required under the related instructions or are inapplicable and, therefore, have been omitted.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STRYKER CORPORATION

Date: February 28, 2007

/s/ DEAN H. BERGY
Dean H. Bergy, Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ STEPHEN P. MACMILLAN
Stephen P. MacMillan, President,
Chief Executive Officer and Director
(Principal Executive Officer)

/s/ DEAN H. BERGY
Dean H. Bergy, Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

/s/ JOHN W. BROWN
John W. Brown - Chairman

/s/ JEROME H. GROSSMAN
Jerome H. Grossman, M.D. - Director

/s/ HOWARD E. COX, JR.
Howard E. Cox, Jr. - Director

/s/ WILLIAM U. PARFET
William U. Parfet - Director

/s/ DONALD M. ENGELMAN
Donald M. Engelman, Ph.D. - Director

/s/ RONDA E. STRYKER
Ronda E. Stryker - Director

/s/ LOUISE L. FRANCESCONI
Louise L. Francesconi - Director

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SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
STRYKER CORPORATION AND SUBSIDIARIES

Column A	Column B	Column C	Column D	Column E	Column F
		Additions	Deductions		
	Balance at	Charged to			Balance
	Beginning	Costs &			at End
Description	of Period	Expenses	Describe (a)	Describe (b)	of Period
DEDUCTED FROM ASSET ACCOUNTS					
Allowance for Doubtful Accounts (in millions):					
Year ended December 31, 2006	$53.4	$7.8	$11.5	$(0.4)	$50.1
Year ended December 31, 2005	$54.7	$9.0	$8.3	$2.0	$53.4
Year ended December 31, 2004	$48.9	$18.4	$13.9	$(1.3)	$54.7

(a) Uncollectible amounts written off, net of recoveries.
(b) Effect of changes in foreign exchange rates.

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FORM 10-K - ITEM 15(a) 3. and ITEM 15(c)

STRYKER CORPORATION AND SUBSIDIARIES

EXHIBIT INDEX

Exhibit 3 -		Articles of Incorporation and By-Laws
	(i)	Composite copy of Restated Articles of Incorporation as amended through April 19, 2000 - Incorporated by reference to Exhibit 3(i) to the Company's Form 10-K for the year ended December 31, 2000 (Commission File No. 000-09165).
	(ii)	By-Laws - Incorporated by reference to Exhibit 3(ii) to the Company's Form 10-Q for the quarter ended June 30, 1988 (Commission File No. 000-09165).
Exhibit 4 -		Instruments defining the rights of security holders, including indentures - The Company agrees to furnish to the Commission upon request a copy of each instrument pursuant to

which long-term debt of the Company and its subsidiaries not exceeding 10% of the total assets of the Company and its consolidated subsidiaries is authorized.

(i) Form of $1 billion Five-Year Credit Agreement, dated as of November 18, 2005, among the Company and the Agents and other Lenders party thereto - Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K dated November 23, 2005 (Commission File No. 000-09165).

Exhibit 10 - Material contracts

(i)* 2006 Long-Term Incentive Plan - Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K dated February 9, 2006 (Commission

File No. 000-09165).

(ii)* 1998 Stock Option Plan (as Amended Effective February 7, 2006) - Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K dated February 9, 2006 (Commission File No. 000-09165).

(iii)* Supplemental Savings and Retirement Plan (as Amended Effective January 1, 1996) - Incorporated by reference to Exhibit 10(iii) to the Company's Form 10-K for the year ended December 31, 1994 (Commission File No.000-09165).

(iv)* Employment contract dated as of April 22, 2003 between Stryker Corporation and Stephen P. MacMillan - Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter

ended June 30, 2003 (Commission File No. 000-09165).

(v)* Restricted stock agreement made as of June 1, 2003 by Stryker Corporation with Stephen P. MacMillan - Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 2003 (Commission File No. 000-09165).

(vi)* Stock option agreement relating to special stock option award to Stephen P. MacMillan pursuant to the 1998 Stock Option Plan on February 7, 2006 - Incorporated by reference to Exhibit 10.3 to the Company's Form 8-K dated February 9, 2006 (Commission File No. 000-09165).

(vii)* Employment contract dated as of May 8, 2001 between Stryker SA and Luciano

	Cattani.
(viii.)*	Stryker Corporation Executive Bonus Plan - Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K dated February 21, 2007 (Commission File No. 000-09165).
Exhibit 11 -	Statement re: computation of per share earnings
(i)	"Note 8 - Net Earnings per Share" on page 56 of this report.
Exhibit 21 -	Subsidiaries of the registrant
(i)	List of Subsidiaries.
Exhibit 23 -	Consent of experts and counsel
(i)	Consent of Independent Registered Public Accounting Firm.
Exhibit 31 -	Rule 13a-14(a) Certifications
(i)	Certification of Principal Executive Officer of Stryker Corporation.
(ii)	Certification of Principal Financial Officer of Stryker Corporation.

Exhibit 32 -		18 U.S.C. Section 1350 Certifications
	(i)	Certification by Chief Executive Officer of Stryker Corporation.
	(ii)	Certification by Chief Financial Officer of Stryker Corporation.

*compensation arrangement

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