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SENATE SPECIAL COMMITTEE ON AGING

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STATEMENT BY

EDWARD B. LIPES

EXECUTIVE VICE PRESIDENT

STRYKER CORPORATION

Good Morning Chairman Kohl, Ranking Member Smith and Committee Members:

My name is Ned Lipes and I am the Executive Vice President of Stryker Corporation. I want to take this opportunity to thank you for the invitation to appear here today on behalf of Stryker Corporation in connection with the Committee's effort to explore the relationships between the medical device industry and physicians.

As you may know, 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. Our corporate headquarters and the majority of our major manufacturing divisions are headquartered right here in the United States. Stryker has grown into a Fortune 500 company based on our offering an unparalleled variety of high quality products and services, as well as the dedication of each of the Company's more than 15,000 employees around the world.

In the late 1930's, Dr. Homer Stryker, a resident in orthopaedic surgery at the University of Michigan, found that certain medical products were not meeting his needs or the needs of his patients. He put his inventive mind to work and created new products that solved real clinical problems he faced with his patients. Some of his inventions included: the walking heel for leg casts, the turning frame for turning immobile patients, and the oscillating saw for removing plaster casts. Dr. Stryker's devices gained the attention of other medical professionals and, by 1941, the demand for these products had grown so large that Dr. Stryker founded a company to produce them. The company became Stryker Corporation when Dr. Stryker retired from his medical practice in 1964. Dr. Stryker was a great example of the role that surgeons can play in the development of new products to meet patient needs.

Since its founding, the Company has focused its attention on continuing to meet and surpass the needs of medical professionals and patients. Working with the medical professionals who use our products, we have continued to improve the quality of care available to patients by solving real clinical problems and finding better ways to make products that will last longer and perform at a higher level. In 2007, the Company's sales topped \$6.0 billion.

As for me, I started working at Stryker in 1988 and in 1989, I became the President of Osteonics Corporation, the orthopaedic implant part of Stryker Corporation. In late 1998, Stryker purchased the Howmedica orthopaedic implant business from Pfizer and Osteonics became Howmedica Osteonics Corporation, which is now known as Stryker Orthopaedics and is based in Mahwah, New Jersey.

Early in my career at Stryker Orthopaedics, I recognized that one of the keys to success was to have close interactions with a select and small number of thought leader surgeons who have good ideas about how to better treat their patients. Throughout the 1980's, 1990's and continuing to today, Stryker has had consulting contracts with a select group of orthopaedic surgeons. For example, surgeons from Indiana and Pennsylvania assisted Stryker in developing a new hip implant system designed to secure initial fixation when implanted into patients. These same surgeons have been following the clinical results of this product in their patients to demonstrate that our design goal is actually being achieved. Another orthopaedic surgeon from California helped Stryker design a new knee implant system to give patients a greater range of motion with their new knee. Because these surgeons contributed their time and ideas to this effort, Stryker

paid them for their efforts. How much did Stryker pay? Stryker paid what it believed to be fair market value for the services that had been provided.

Stryker has other types of contractual relationships with surgeons as well. For example, some surgeons are great teachers. One surgeon from Massachusetts has a strong interest and understanding of ceramic technology. He uses that knowledge and expertise to help other surgeons understand when this technology might be appropriate for their patients. Another surgeon from Georgia helps Stryker teach Japanese surgeons about the benefits of a new knee design that can help their patients kneel and squat more easily. Finally, certain surgeons are outstanding peer-to-peer implant technique teachers. One surgeon from Michigan regularly teaches his peers – in sawbones classes, in cadaver labs, and in his own operating room – by demonstrating the proper use of our newly developed computer navigation technology for hip and knee replacement surgery – all with a goal of enhancing patient outcomes. We retain these consultants' services because they help us teach the proper use of our products, and this has helped our business grow.

In the late 1990's, our industry began to change and certain abuses emerged as the use of consultants became a marketing tool. Stryker did not change its business model and instead adhered to our traditional approach to contracting with surgeons. We required our business leaders to have clearly defined procedures, systems, and controls in place to ensure compliance with our business model. In March 2005, the United States Attorney for New Jersey issued subpoenas to five orthopaedic companies, including Stryker, as it began an investigation into the relationships between those companies and surgeons.

The September 2007 settlements related to the investigation have provided our industry with a level playing field so that each company will play by the same set of rules regarding contracting with health care professionals. Surgeons, who are absolutely crucial to product design and development, will be paid fair market value for their services. Other surgeons who are great teachers will be paid fair market value to train their fellow healthcare professionals about the features and benefits of certain products.

Stryker firmly believes that all of the competitors in our industry can and should compete on a level playing field. The recent settlements with the U.S. Attorney provide a strong framework to ensure that this occurs and Stryker intends to honor its commitments to the U.S. Attorney in both spirit and principle. In the years ahead, we look forward to competing on the basis of how our products and services meet the demands of surgeons and patients. We look forward to continuing to interact with consulting surgeons who have so much to offer in terms of enhancing the treatment of patients everywhere. These collaborations will continue to bring innovation and improvements in patient care.

Thank you again for the opportunity to express Stryker's views. I would be pleased to answer any questions that Members of the Committee may have.