

**Testimony on Behalf of Walt Humann, President and CEO of OsteoMed  
United States House of Representatives  
Ways and Means Committee, Subcommittee on Oversight**

Chairman Boustany, Ranking Member Lewis, and members of the subcommittee, thank you for the opportunity to testify today. My name is Walt Humann, and I am President & CEO of OsteoMed, a medical device company located in Dallas, Texas. I am also on the board of the Medical Device Manufacturers Association.

On any typical Tuesday like today, I would normally be at OsteoMed's facilities ensuring that our company continues to develop and produce innovative medical technologies that improve patient care, lower healthcare costs, and provide well-paying jobs to hard-working Americans. Instead, I am before you to sound the alarm bell on the devastating excise tax that already is having a negative impact on thousands of medical device companies. Unfortunately, the negative consequences of the excise tax have already been felt at OsteoMed.

### **Background on OsteoMed**

Like the majority of medical device companies, we have humble beginnings as a small start-up company. OsteoMed was founded in April 1991 in Glendale, California. We started by supplying proprietary, patented instruments for orthopedic hip surgery, and quickly expanded to design and manufacture various small bone fixation devices, implants and surgical systems focused on the craniomaxillofacial, small bone orthopedic and spine markets. We moved to Dallas in 1993 in order to better distribute our products around the world.

Today, OsteoMed produces approximately 2,000 different products to fulfill our core mission of improving patient outcomes. I want to highlight three systems from different areas of our business for your benefit. In neurosurgical procedures such as treating trauma, aneurisms and brain tumors, neurosurgeons frequently must remove part of the skull to access the brain. OsteoMed makes the products used to reattach and/or replace parts of the skull in order to protect the brain and to restore normal appearance to the patient. Another one of our systems is used for

pediatric patients born with severe craniofacial deformities. Our product allows surgeons to reconstruct very young babies for normal function and appearance and in many cases avoid the feeding problems, tracheotomies and other treatments that permanently hinder normal childhood development. Another system we produce focuses on repairing and reconstructing the feet and ankles. OsteoMed recently supported a mission trip to Mexico where these products were used by surgeons to allow young patients to walk normally for the first time.

Over the past two decades, OsteoMed has grown. We have continued to reinvest our earnings and been able to provide more patients with innovative orthopedic treatments through new product development and more Americans with well-paying jobs through our continued expansion. Today, we employ and support close to 300 American families.

## **The Medical Device Industry**

The medical device industry is a true American success story. The industry is comprised of over 400,000 highly skilled and science-driven professionals, with over a million more supporting the industry. In total, the industry is responsible for more than 2 million American manufacturing jobs. In my home state of Texas alone, the industry supports more than 66,000 jobs. The industry is a strong manufacturing presence in other states too. In Georgia, for instance, there are more than 30,000 device related jobs.<sup>1</sup> And these are true American, manufacturing jobs that pay above average wages. Jobs in the sector pay an average of 15 percent more than the average U.S. manufacturing job. The average salary of all employees in the medical device industry is \$60,000 and the industry paid \$24.6 billion in salaries in 2008.

What is truly incomparable about the medical device industry is that most companies are small. More than 98 percent of companies have less than 500 employees, and more than 80 percent have fewer than 50 employees.<sup>2</sup>

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<sup>1</sup> Battelle, The Economic Impact of the U.S. Advanced Medical Technology Industry, March 2012

<sup>2</sup> Background: The American Medical Technology Industry and International Competitiveness, Department of Commerce, 2007.

Our industry also contributes to a positive balance of trade for our country. The U.S. truly is the global leader in the development and manufacture of innovative medical technologies. This is reflected by the fact that the industry is one of the few American manufacturing industries that maintains a positive net trade surplus. Recent estimates have put the medical device trade surplus at approximately \$5.4 billion.<sup>3</sup>

## **The Medical Device Tax**

When Congress passed the Patient Protection and Affordable Care Act (“ACA”) in 2010, it unfortunately also included a devastating tax on innovation. In particular, the ACA includes a 2.3% excise tax on the sales of most medical devices in the U.S. The tax applies to the total revenue of a company, not profit. In fact, companies are subject to the tax regardless if they are profitable or not. In many cases, companies will end up paying more in the excise tax than they actually generate in profit. Two years ago, I started a subsidiary within OsteoMed to compete in the spine market with an innovative product that greatly simplifies back surgery and reduces a two hour operation to only 30 minutes. This company is now producing revenues but was not projected to make a profit for a couple of years due to the product development and overhead investments required. Unfortunately, this subsidiary is now paying this excess tax and the timeframe to profitability has lengthened significantly.

We have already begun to see the impact of this poorly designed policy. Companies, both large and small, have begun to make hard choices to deal with the tax. For some companies, this has led to significantly reduced spending on research and development. For others, it has led to a freeze on hiring and expansion projects. Finally, many companies have made the painfully difficult decision to reduce headcount. At OsteoMed, we have enacted all three.

Supporters of the medical device excise tax claim that the nearly 30 million new covered beneficiaries will use more medical devices and the tax will be offset. However, this assumption is false for several reasons:

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<sup>3</sup> World Trade Atlas, 2007.

First, new beneficiaries are not typical medical device users. In fact, more than 80% of uninsured are under 45 years old.<sup>4</sup>

Second, past experience with near-universal health coverage does not necessarily imply greater utilization of medical technology. We need to look no further than in Massachusetts. OsteoMed has experienced no such windfall from near universal coverage in the state. In fact, most companies doing business in the state have experienced no noticeable increase in sales since 2007, when the state insurance mandate became effective.

Finally, many medical devices are products that are used regardless if a patient is insured or not. For example, automated external defibrillators are found in public places like airports and shopping malls. If an uninsured person goes into cardiac arrest, he or she will receive the treatment regardless of their insurance status. At OsteoMed, our products are used in trauma and reconstructive procedures. We are blessed to live in a great country and I am unaware of any people on the street after a car wreck with injured heads, faces or extremities that were unable to receive OsteoMed products regardless of their insurance status. In short, patients requiring our products receive them similar to other devices at other companies. However, these manufacturers, like OsteoMed, are still liable for the tax.

### **Impact of Device Tax on OsteoMed**

There are numerous published reports regarding the impact of the medical device excise tax. One report suggests that nearly 45,000 jobs will be lost as a result of the tax.<sup>5</sup>

I am here because I am concerned about over 40 jobs in particular. These are the 25 jobs that OsteoMed had to eliminate because of the medical device tax with other planned positions that will not be pursued. In the 22 year history of the company, we have never had to lay off an employee, much less related to a government tax. However, as we prepared our 2013 budget last year, and realized

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<sup>4</sup> Health Insurance Coverage, Centers for Disease Control and Prevention, 2011.

<sup>5</sup> Diana Furchtgott-Roth and Harold Furchtgott-Roth, Employment Effects of the New Excise Tax on the Medical Device Industry, Advanced Medical Technology Association, September 2011.

this tax would soon be a reality, we had to make the difficult decision to reduce our headcount as well as research and development expenditures.

OsteoMed is not alone in doing this. Other companies have made, or are in the process of making, the difficult decision to layoff personnel, reduce budgets for research and development of new medical treatments, or scrap plans for future hiring and investment. This is happening at an alarming rate.

## **Conclusion**

Congress must do everything it can to eliminate this devastating tax. As was previously discussed at the onset, on a typical Tuesday I should be at OsteoMed's offices ensuring that our company continues to develop and produce innovative, life-saving medical technologies that improve patient care, lower healthcare costs, and provide well-paying jobs to hard-working Americans. However, this issue is too important for me to sit on the sidelines. We have already made the difficult decision to lay off employees and reduce, forego future hiring and cut our R&D spending. Other companies have done the same. We must do everything in our power to ensure that this American success story remains a success, and we can continue to develop lifesaving technologies for the American people.