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Spine Company Draws Investors

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Companies that produce artificial spinal discs are becoming an investor pick in Northeast Ohio.

Two artificial disc makers in Greater Cleveland this year have raised capital totaling \$8.75 million. The more recent of the investments was made in Theken Disc of Akron, which last week announced it received \$5.5 million from eight individual investors, predominantly from Northeast Ohio. Theken plans to use the money to advance the development of its artificial disc and to perform initial tests on the product.

The other maker of artificial discs that received money this year is AxioMed Spine Corp. of Beachwood, which received \$3.25 million from venture capitalists in Cleveland, Columbus and Memphis, Tenn.

Theken would not disclose the names of its new investors or reveal the stake they now hold in the company. One Theken investor, who spoke on the condition of anonymity, said the company's management and research team is composed of "probably the brightest, most progressive and aggressive people around."

"You meet people in life who are very good at being entrepreneurs but aren't good at the operational side," the investor said. "These are the first people — and I've been doing investments for the past 20 years — that I can honestly say know how to market their products and technology."

The investor said he is especially impressed with Randall Theken, the company's founder and CEO, and with Ric Navarro, who serves as Theken Disc's vice president of research and development. Mr. Theken also owns Theken Surgical of Akron, a maker of spinal fusion devices, and research-and-development firm Theken Orthopaedic of Barberton.

Mr. Navarro said the investment could help Theken Disc attract a top-tier medical device company as a partner or an acquirer.

Although Theken Disc is early in its development, the chance that it would be plucked by a top medical device company is not far-fetched. Top companies already have started to pay hefty price tags for small disc makers, said Dr. Scot Miller, who is an orthopedic spine surgeon at the Crystal Clinic in Akron and a scientific adviser for Theken.

In June 2002, Medtronic Sofamor Danek of Memphis, Tenn., bought for \$270 million a Seattle-based artificial disc startup called Spinal Dynamics Corp., which was so young that it was just applying for approval from the Food and Drug Administration to start clinical trials when it was acquired.

Likewise, Synthes-Stratec of Switzerland spent \$350 million last February for artificial disc developer Spine Solutions Inc. of New York. A statement from Synthes-Stratec announcing the acquisition said the company expects the global market for total disc replacement to grow to \$3 billion by 2008.

"The industry is undergoing a revolution," Mr. Navarro said. "This tells you how much of a revolution is happening in the minds of the top companies."

It also tells you why local investors are so hot on artificial disc makers, he said.

The similarities between Theken and AxioMed are remarkable. Both are developing discs made of polymer material — albeit different polymer materials — that could restore mobility in the spine for people suffering from degenerative disc disease.

(Continue)

Both companies were inspired to develop their discs from the same place.

Mr. Navarro and Axiomed founders Chuck Birchall and James Kuras all worked at medical device company AcroMed Corp. in Cleveland before it was acquired in 1998 by DePuy Inc., an orthopedic device maker that later was bought by Johnson & Johnson. The resulting company, DePuy AcroMed Inc., is set to release the first U.S.-approved artificial disc during the second half of next year.

Strengthening the ties even further, Mr. Kuras was hired by AcroMed in the early 1990s to take over an artificial disc project for Mr. Navarro, who was leaving the company, Mr. Navarro said.

Plus, both companies have only a handful of employees: Theken has six, and Axiomed has four. And both are in relatively early stages of development, with many patents still pending (Axiomed has received one).

The differences aren't as obvious as the similarities. They lie in the engineering nuances of the discs, the management teams' operational styles, and the decisions to accept venture capital money or angel money. Still, those differences could determine what degree of success, if any, each company achieves.

Axiomed experienced its first significant setback since accepting venture capital money earlier this year when its co-founder and CEO, Mr. Birchall, resigned late last month. His partner, Mr. Kuras, who serves as vice president of product development, said the company's development would not be affected by Mr. Birchall's exodus. Axiomed is searching for a new CEO.

John DeFord, managing director of Cleveland venture firm Early Stage Partners, which invested in Axiomed, would not discuss why Mr. Birchall resigned, though he said Mr. Birchall left on "good terms." Mr. Birchall did not return a telephone call last week.

Mr. DeFord said Axiomed's team has done a "great job" at developing the company and meeting milestones. He said he hadn't heard of Theken, but he's pleased that there are at least two local companies developing artificial discs because it "demonstrates a core competency in Northeast Ohio in the orthopedic and spine area."

Axiomed hopes to begin clinical trials next year and to have a product on the market as early as 2006. Theken's clinical trials would begin in 2006, and it hopes to have a disc on the market in 2007.

"It's all teed up," Theken's Mr. Navarro said. "The money's there. We have good people, and we're ready to move forward. It's a great time to be part of this industry."

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